

## Asian Development Bank Group

### Asian Development Bank (AsDB)

<b>FY2005 Appropriation</b>	<b>FY2006 Scheduled Request</b>	<b>FY2006 Arrears Request</b>	<b>FY2006 Total Request</b>
\$0	\$0	\$0	\$0

The AsDB, through its hard loan window (OCR), lends at market or near-market rates to promote sustainable economic development, poverty reduction, and sub-regional cooperation in the Asia region. The AsDB provides loans, guarantees, and cofinancing to governments and makes a 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 institution can borrow. It is largely the strength of AAA countries that allows the AsDB to issue bonds at favorable terms. In FY2000, the U.S. completed payment of its commitments with respect to the Bank’s last general capital increase (GCI-4).

#### **Key Facts**

- The U.S. is a founding member of the AsDB, and is the largest shareholder along with Japan. Japan and the U.S. each have a 15.8% share in the AsDB and 12.9% of the vote.
- In 2004, the AsDB lent approximately \$3.7 billion from the OCR, including \$807 million in loans, equity and guarantees for the private sector. That year the AsDB mobilized approximately \$2.4 billion in co-financing from official and commercial sources.
- Since its inception, the AsDB has made total commitments, including to the private sector, amounting to over \$83 billion. If AsDF loans are included, just under \$110 billion in commitments have been made.
- Singapore, South Korea, Thailand, and Malaysia have graduated from regular AsDB assistance and now contribute to the AsDF. China is still an active AsDB borrower but contributed \$30 million to the AsDF-9 replenishment.

Note: Internet website: [www.adb.org](http://www.adb.org)  
AsDB Fiscal Year: January 1 - December 31

## Supporting U.S. Objectives

The U.S. plays a major role in shaping the AsDB's lending and policy direction, through its voice on the Board of Directors and through direct Treasury engagement with shareholders and AsDB management, including through international negotiations. Maintaining U.S. 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. It also demonstrates U.S. commitment to Asia, and shapes the AsDB's role in promoting growth and development in the region. The U.S. also leverages considerable assistance from other sources through its contributions.

### *Managing for Results*

- The U.S. has been a strong and consistent advocate for implementation of results-based management in the MDBs.
- At U.S. urging, the AsDB made results measurement the centerpiece of the AsDF-9 replenishment negotiations, concluded in May 2004. The AsDB established a dedicated Results Management Unit to spearhead integration of results measurement in all project and grant documents and in country strategies. To this end, the AsDB has made significant strides in improving the quantity and quality of results data in its loan and country documents. The AsDB has also launched a new human resources strategy that rewards staff for achievement of development outcomes, rather than the quantity of loans approved.
- The first results-oriented country strategy program (CSP) for Nepal was endorsed by the AsDB's Board, and the CSP Update for China and the Pacific Strategy also incorporated results frameworks. Further results-based CSPs are planned in Bangladesh, Cambodia, Philippines, Viet Nam, Fiji and Indonesia for 2005. Work is also ongoing to prepare the results-based Regional Cooperation and Strategy Program (RCSP) for South Asia.
- The AsDB has taken long-overdue steps to improve its performance-based allocation (PBA) system. In December 2004, the AsDB approved a new PBA system that significantly increases the weight given to governance and performance in country ratings. The "collars" that limited the degree to which allocations could fluctuate from year-to-year have been eliminated, thus strengthening the link between performance and allocations. The methodology for determining country allocations is now far more transparent and easy to understand than the old formula, and AsDB Management will publicly disclose all country performance ratings starting in 2005.
- The AsDB became the first Chair of the Multilateral Development Bank Working Group on Managing for Development Results and has assumed responsibility to Co-Chair the OECD-Development Assistance Committee Joint Venture on Managing for Development Results. AsDB also participated in various international meetings, disseminated outcomes of these events, and shared knowledge with other international organizations.
- Finally, with strong U.S. support, the AsDB continues to strengthen the independence of the

Operations Evaluation Department (OED) and the accountability mechanism that handles complaints from persons adversely affected by violations of AsDB policy.

- Measurable outcome indicators based on quantifiable baseline data have been incorporated into most country project documents. For example:
  - India and Pakistan: AsDB's multisector infrastructure loans for Jammu and Kashmir (India and Pakistan) included quantified and time bound development targets. For example, in India, by 2008, 191 kilometers of drain lines, serving over 1 million people, will be replaced; 1,500 kilometers of roads and 80 bridges will be reconstructed; and 529 kilometers of water lines, serving 1.5 million people, will be replaced. In Pakistan, by 2009, the percentage of the population living in absolute poverty will be reduced from 35% to 22%, the maternal mortality rate will be reduced by 30% and infant mortality by 20% from 2004 levels, safe drinking water will be provided for 450,000 people currently without access, 15,000 primary school students will be provided classrooms, and 25,000 high school students in 56 schools will be provided rehabilitated buildings with safe drinking water and sanitation.
  - Uzbekistan: The Woman and Child Health Development Project aims to improve the health status of women and children by assisting the government to achieve the Millennium Development Goals. A few key goals include a reduction in the maternal mortality rate in project sites by 20% by 2009 from a baseline of 34 per 100,000 births (2002), a reduction in the infant mortality rate by 25% by 2009 from a base of 62 per 1,000 live births (2002), a reduction in the incidence of stunting among under-5 children to 25% by 2009 from 31% in 1996, and immunization of all children for childhood diseases by 2009, up from 95% in 1996.
  - Pakistan: The North-West Frontier Road Development and Subregional Connectivity Project aims to reduce the population of the North-West Frontier Province living below the poverty line from 44% to 33% by 2012, and to increase transit trade with Afghanistan and the Central Asian Republics by 20% and 5% annually, respectively, by 2012. By the time of project completion in December 2010, the percentage of the rural population with access to a paved road will increase from 41% to 60%, and the percentage of the population with access to public transport will increase from 32% to 50%, while international and transit traffic coming from Afghanistan and the Central Asian Republics will increase by 8% annually.
- While much progress has been made, the U.S. and AsDB management recognize that the AsDB still has a ways to go before quantified and timebound results frameworks are incorporated in all country and project documents. The U.S. expects to see such indicators in all country, sector and project documents before the end of 2005 and will urge the AsDB to expedite this work.
- Finally, after a successful restructuring of the AsDB portfolio for the Philippines in 2003-2004 that brought the number of active loans down from 51 to 27 and reduced the number of

projects at risk from 29% of the portfolio to 11%, saving the Government \$1.2 million in commitment charges in 2003 alone, the U.S. continues to encourage the AsDB to reduce the large number of undisbursed loan commitments in other major borrowers. The U.S. urges the AsDB to give higher priority in addressing the perennial problems of absorptive capacity in borrowing countries and its continuing tendency to give priority to loan quantity over quality.

### *Boosting Productivity*

- The AsDB has increased its institutional effectiveness on the ground in promoting long-term sustainable growth by increasing lending for the social sectors and strengthening its focus on private sector development. (For further information, please see the section on promoting private sector development.)
- In addition, investments in agricultural and rural development have increased productivity by focusing on production inputs, market access and transfer of technology. Recent examples of such projects include:
  - Nepal: The \$20 million Skills for Employment Project, approved in November 2004, supports short-course development for rural workers to learn income-generating skills. Project benefits include acquisition of skills for employment in local and international labor markets and increased opportunities for self-employment through skills training. At least 50% of project beneficiaries will be women, and 25% will be Dalits (low caste members of society).
  - Afghanistan: The \$55 million Agriculture Sector program aims to increase agricultural productivity through market-based policy reforms, investments in public infrastructure, and institutional and organizational improvements. Specific reforms include better management systems for sustainable use of natural resources; efficiency improvements in sector support services; development of agricultural commodity markets; and restructuring state-owned enterprises (SOEs).
  - Pakistan: In December 2004, the AsDB Board endorsed a \$16 million Restructuring of Technical Education and Vocational Training System Project for the Baluchistan Province. Project outputs include: a non-formal training programs for about 20,000 youth and adults, at least 50% of which are to be women; a polytechnic institute for women; and three training centers for women.
- Transport sector and urban infrastructure projects can help catalyze growth by linking producers to markets, reducing transaction costs, creating jobs, and improving access to critical social services (such as health and education). Examples include:
  - India: The National Highway Sector II Project will increase the capacity of 566 kilometers of the critical north-south corridor, improve road safety, and reduce the travel time between key economic centers by 50% and for individuals accessing health clinics by greater than 50%.

- Mongolia: The Regional Road Project will provide the remaining piece of the critical infrastructure backbone linking Mongolia with northeastern China and China's eastern ports, greatly reducing transit time and the cost of goods entering Mongolia. Economic growth in Mongolia and the volume of trade are expected to accelerate upon the completion of the road in 2009.
- Nepal: The Subregional Transport Facilitation Project will provide essential transit links to India thereby helping Nepal integrate its economy into the larger subregional economy. The project will reduce the cost of capital for freight by 12% annually starting in 2009, reduce vehicle costs by 49%, and shorten waiting times at the border by an average of 15 minutes.
- Micronesia: The Omnibus Infrastructure Development Project for the Federated States of Micronesia will provide wastewater improvements, power rehabilitation, and water supply for four States. Safe water supply will be extended to all households currently without potable water, wastewater collection will be extended to 300 households, and the effluent quality of water produced by wastewater treatment plants will meet U.S. EPA standards by 2009. These initiatives will greatly reduce the incidence of waterborne disease and missed work days.
- Regional: The AsDB and Government of Japan are funding an East-West Corridor Road in the greater Mekong Subregion. The all-weather highways built under the project will help to link regional economies, boost trade, attract foreign investment, and spur job growth in the area.

#### *Promoting Private Sector Development*

- The United States supports the Private Sector Operations Department (PSOD) in its role as a catalyst—facilitating private investment, creating markets, and stimulating competition—and its role of promoting new ideas in the pursuit of economic growth. The PSOD aims to complement the efforts of the Regional Departments that work on public sector projects to create a better investment climate.
- As a result of U.S. encouragement, the AsDB has significantly expanded the scope and scale of its private sector activities. Over the past year, for example, the PSOD has embarked on a number of new projects in the areas of workers remittances, local currency financing, trade finance facilitation, and housing finance. It has also enhanced collaboration with the public sector departments of the AsDB, improving the synergy between direct lending operations and structural reforms. The AsDB has also increased its focus on the unique challenges faced by small and medium enterprises.
- In 2004, the AsDB Board approved seven private sector loans, twelve equity investments, and two guarantee operations, totaling \$807 million in private sector operations – a 55% increase in volume over the previous year. Private sector lending is expected to rise to over

\$1 billion in FY2005. With strong U.S. leadership, the PSOD will continue to improve the effectiveness and reach of private sector operations by encouraging stronger results measurement and more development impact. The PSOD is working with the AsDB's Operations and Evaluations Department and other multilateral agencies on a set of best-practice standards for private sector operations.

- The following operations have provided direct assistance for private sector activities:
  - Afghanistan: The AsDB invested \$35 million in equity capital in a new cellular network provider. Fixed lines are almost nonexistent in Afghanistan, and the cellular phone penetration rate is only 1.2%. The AsDB's investment will help expand Afghanistan's embryonic telecommunications sector, linking markets and boosting productivity.
  - Mongolia: The AsDB's \$1.5 million equity investment and subordinated loan of \$4.5 million for the Trade and Development Bank will demonstrate to the Mongolian public that the Government's privatization program is producing results. The AsDB's involvement in the Trade and Development Bank will serve a catalytic role for attracting other foreign direct investment to the banking sector, while at the same time providing a needed impetus to develop the legal framework for mortgage lending, general and life insurance, leasing, and other facets of financial sector development.
  - India: The AsDB's \$20 million equity stake in the Baring India Private Equity Fund will leverage another \$150 million in private capital. The Fund will invest in companies domiciled or with significant operations in India, but focus on SMEs with significant growth potential. The Fund manager is committed to developing a network of local business communities, entrepreneurs, banks, and government agencies that implement international standards of corporate governance.
  - Bangladesh: The AsDB's \$20 million investment in Grameen Phone will expand the village pay telephone (VPT) services, which provides leased telephones to predominantly female entrepreneurs, who sell telephone services to fellow villagers. In addition to increasing telephone penetration in Bangladesh, the project is expected to generate nearly \$100 million in revenue for tens of thousands of female VPT operators by 2008.
  - Philippines: The AsDB's loans and equity investment for the purchase and resolution of the National Home Mortgage Finance Corporation's (NHMFC) portfolio of nonperforming assets is a groundbreaking transaction in the Philippines nonperforming asset market. With the AsDB's investment, a major international investment bank with proven experience will set up a mortgage company to restructure over 55,000 mortgages held by NHMFC, returning up to \$200 million to the state social security system that had invested in NHMFC.
- In addition to direct assistance to the private sector, the AsDB provides resources for programs that seek to create an enabling environment for private sector development:

- Vietnam: Vietnamese SMEs suffer from some of the same challenges as those in Cambodia. The AsDB's \$100 million SME Enterprise Development Program addresses the institutional constraints on small business growth by promoting uniform accounting standards, transferability of land-use rights, and clearer application of licensing requirements.
- Bangladesh: Bangladeshi SMEs are hobbled by inadequate access to credit, cumbersome registration requirements, poor governance and corruption, and the absence of a debt recovery and secured transactions framework. The AsDB's \$15 million program will ease the constraints on small business growth, increase employment in the sector on average 8% per year, reduce income poverty by 15% by 2010, and establish a national advisory panel for SMEs.
- Private sector assessments have been completed or are under preparation for Azerbaijan, Bangladesh, Bhutan, Cambodia, China, Fiji, India, Indonesia, Kazakhstan, the Kyrgyz Republic, Laos, Marshall Islands, Mongolia, Nepal, Philippines, Pakistan, Papua New Guinea, Samoa, Sri Lanka, Tajikistan, Uzbekistan, Vanuatu and Viet Nam. We have stressed that these assessments should be hard hitting and comprehensive, and used to help shape the overall country strategy and the assistance pipeline.
- Finally, as part of APEC's work on alternative remittance systems (ARS) and to complement the U.S.-Philippines remittance initiative of May 2003, the AsDB agreed to develop its expertise on remittances and has made significant progress on a new study of the remittance industry in the Philippines. The AsDB published a study of this industry in June 2003 which identified areas for further technical assistance. Following this, a technical assistance program commenced in September 2003, which explores specific regulatory and infrastructure measures the Philippines could take to encourage use of the formal financial system and increase the development impact of remittances for poverty alleviation. A final report, released in September 2004, set the stage for U.S. Treasury staff level follow-up in the Philippines in late 2004. The AsDB also launched a similar study of South Asian countries with significant remittance flows, such as Bangladesh, Nepal, and Pakistan.

#### *Institutional Effectiveness and Good Governance*

- Through its governance work, the AsDB seeks to promote transparency, predictability, and accountability, increase the participation of citizens in the development process, and improve the efficiency and effectiveness of government.
- Corruption in the MDBs has been a focus of Congress and we are encouraged by the steps AsDB has taken to strengthen the scope and reach of its anti-corruption measures. In December 2004, the AsDB decided to debar corrupt firms from all AsDB-sponsored activities, not just procurement, and the U.S. expects further steps in the months ahead, including agreement with other MDBs on a set of uniform anti-corruption standards. The AsDB conducted two project procurement-related audits in 2004 and plans to double this number in 2005. As a result of U.S. advocacy, the AsDB also agreed to add two new professional staff to the Office of Auditor General in 2005 to strengthen its anti-corruption

oversight activities. Corruption and Fraud Awareness Workshops are also held regularly for AsDB staff. Finally, the Office of Auditor General conducts anti-corruption programs for incoming staff at headquarters and for staff at selected resident missions, which in 2004 included Bangladesh, Pakistan and Uzbekistan.

- The AsDB is in the process of reviewing the implementation of its governance and anti-corruption assistance programs in borrowing countries. In late 2004, the Regional and Sustainable Development Department, in conjunction with the Integrity Unit of the Office of Auditor General, held external consultation workshops in Indonesia, Nepal, Pakistan, Papua New Guinea, Philippines, Uzbekistan, and Vietnam to solicit views on trends in governance and anti-corruption activities and potential components of the AsDB's new Medium-Term Governance and Anti-corruption Strategy for 2005-2009.
- Country Governance Assessments are being carried out in cooperation with individual borrowing countries to systematically assess the quality of governance, and to strengthen the linkage between the quality of governance and levels and composition of assistance. During 2004, assessments were initiated for Azerbaijan, Uzbekistan, Nepal, Lao PDR, Afghanistan, India, and Sri Lanka. Country Governance Assessments were published for Indonesia, the Pacific, and Mongolia.
- In 2004, the AsDB continued its program of technical assistance and loans in support of law and policy reform and the rule of law. This program focused on access to justice for the poor, judicial reform, administrative law, corporate governance, anti-money laundering, secured transactions and insolvency law reform, and legal training. "Toolkits" to help mainstream law and policy reform in country strategies were developed in 2004.
- In 2004, the AsDB Board approved 13 core governance loans totaling \$702.2 million (up from \$449.5 million for such loans in 2003). Recent examples of direct assistance for good governance and anti-corruption activities include:
  - Indonesia: In 2004, the AsDB continued its support for public expenditure reform in Indonesia through the State Audit Reform project. The project aims to reform the state audit function at all levels and bring it in line with good international practice. The loan includes policy and capacity building initiatives that will strengthen the complementarity between internal and external audit functions.
  - Bangladesh: Bangladesh instituted an independent Anti-Corruption Commission in May 2004, with support from the AsDB. The Commission has full responsibility for investigation, prosecution, prevention and education on anti-corruption matters.
  - Pakistan: The Baluchistan Resource Management Program has a number of features aimed at reducing corruption risks, including third-party assessment and evaluation as a permanent feature of all programs, special annual audits of the ten largest public sector projects, and independent audits of district accounts.



- Vietnam: The AsDB has played an important role in fostering a policy dialogue on corruption and in funding practical measures to combat it. In 2004, the AsDB conducted an assessment of efforts by the Government of Vietnam to develop a grievance mechanism for handling complaints about corruption, and to strengthen the state audit and oversight role of the National Assembly.
- India: The \$150 million Assam Governance and Public Resource Management loan is designed to help the Government of Assam to improve the state's public finances, strengthen capacity within the state government, and enhance service delivery. The program will help eliminate unproductive subsidies and enable public spending to be more targeted to the poor. The program will positively affect the livelihood of more than 26 million people who live in Assam, 36% of whom are poor.
- Regional: In August, the Office of Auditor General completed work on a project to strengthen the regional training capability of the Asian Organization of Supreme Audit Institutions. The project yielded 25 new audit training specialists and 50 trained auditors on technical audit subjects from AsDB developing member countries; a set of new regional guidelines on fraud and corruption; and complete training materials for conducting financial audits.

#### *Steps to Combat Money Laundering*

- At the 2003 APEC Leaders meeting in Bangkok, leaders supported a proposal by the United States to establish a Cooperation Fund for Regional Trade and Financial Security (CT Fund) to strengthen the capability of the AsDB and its borrowing members in the areas of anti-money laundering, combating the financing of terrorism, customs modernization, and supply chain and port security.
- In 2004, Australia, Japan, and the United States each committed \$1 million to the CT Fund. China, Taiwan, Canada and New Zealand have also indicated an interest in contributing. A Treasury Office of Technical Assistance expert on anti-money laundering has been seconded to AsDB headquarters in Manila and is helping AsDB staff improve coordination with regional anti-money laundering and trade security organizations and identify projects for financing by the CT Fund.
- The first batch of projects financed by the CT Fund, in Indonesia and the Philippines, were approved in November 2004.
- The AsDB also incorporates anti-money laundering controls into its normal loan operations. A recent example was the successful completion of enhancements to the Philippines money-laundering regimen as part of a \$75 million tranche release the Second Non-Bank Financial Governance program. Similar conditions have applied to a number of AsDB-sponsored loans for governance and social sector development in Indonesia, Vietnam, Laos, and Cambodia.

- In 2004, the AsDB renewed and strengthened its relationships with key international security organizations including the World Customs Organization (security of the supply chain), International Maritime Organization (International Ships and Port Facilities Security Code), International Labor Organization (Seamen's ID card), International Civil Aviation Organization and the Financial Action Task Force through its Regional FATF style body the Asian Pacific Group on Money Laundering.
- The AsDB is actively collaborating with these organizations to assist developing member countries to meet the requirements of UN Security Council Resolution 1373 on anti-money laundering, border controls, and air and maritime security.

### *Increasing Transparency and Information Disclosure*

- During the past year, the AsDB has taken several steps to enhance information disclosure and the AsDB's accessibility to the public. Specific actions include expansion of the AsDB's depository library network, expansion and improvement of the bi-monthly electronic partnership newsletter to NGOs and civil society organizations, and commencement of a review of the AsDB's extensive external web site.
- As part of the AsDF-9 replenishment process, AsDB management pledged to increase transparency in management appointments and decision making. They also agreed to employ outside experts, and consult Board members more closely, in the selection process for future Vice Presidents.
- In addition, AsDB management agreed to adopt a more transparent and forward-leaning disclosure and public communications strategy. A working draft of this new policy is now being considered by the AsDB Board.
- The new policy provides for the translation and dissemination of most documents into national and local languages. Affected persons will have more input in the design of resettlement, environmental and other assessment documents, and full access to such documents once they are issued to the AsDB's Board. The public will also have access to a rolling, three-week schedule of Board meetings and an independent Public Disclosure Advisory Committee (PDAC) will be formed within the AsDB to monitor implementation of the policy and to act on complaints that requests for information have been unfairly denied. Finally, updates on project implementation – in the form of Public Information Documents – will be made available to the public for the first time, as will Board minutes and the Chair's summary of Board discussions on country strategies.
- The development process for the new public communications policy was highly participatory. The AsDB held a series of 15 workshops in Asia, Europe and North America to solicit feedback from civil society organizations on the first draft of the policy; in addition, more than 70 sets of written comments were provided and posted unabridged on the AsDB's website. A second draft of the PCP was posted on the AsDB website in October and November 2004, and comments were again solicited from interested individuals and

organizations. The U.S. will continue to urge AsDB management to ensure that the final policy is consistent with all provisions contained in U.S. legislation on transparency in MDBs (Section 581 of P.L. 108-199, Consolidated Appropriations Act, 2004)

- Finally, as noted, the AsDB has put in place a new accountability mechanism to ensure that it is responsive to the queries and concerns of civil society and, specifically, to those persons adversely impacted by AsDB-sponsored projects. The U.S. has pressed AsDB management to ensure that adequate staff and resources are provided for this critical function. The FY2005 budget includes a 12% increase in funding for the accountability mechanism.

*Opportunities for U.S. Businesses*

- In 2003, AsDB Group operations produced \$203.8 million in business benefits to the U.S. including \$158.3 million in estimated exports, \$23.3 million in contracts for goods and services of U.S. origin, and \$22.1 million for technical assistance consulting contracts.