

Asian Development Bank Group

Asian Development Fund (AsDF)

FY2005 Appropriations	FY2006 Scheduled Request	FY2006 Arrears Request	FY2006 Total Request
\$99,200,000	\$115,250,000	\$0	\$115,250,000

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

In FY06, the Administration is requesting \$115.25 million for scheduled commitments to the AsDF.

The total value of AsDF-9 is \$7.2 billion and covers the four-year period, 2005-8. The U.S. commitment to AsDF-9 is \$461 million, accounting for 13.7% of total donor commitments. Treasury will be closely working with the AsDF to ensure that the performance and other reform commitments agreed to in the replenishment negotiations are implemented in a timely and effective manner.

Key Facts

- In 2004, the AsDF issued 47 loans in the amount of \$1.2 billion. Since its inception, the AsDF has made total commitments amounting to some \$29 billion.
- AsDF funds are primarily used for projects in areas such as health, environment, education, governance, and social protection, in keeping with the Bank's mandate on poverty reduction and transparency.
- Currently, 26 countries are eligible to receive AsDF resources. The U.S. has consistently advocated that only the neediest countries without access to other resources, such as private capital, should have access to AsDF resources. 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.
- 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; AsDB Fiscal Year: January 1 - December 31

Supporting U.S. Objectives

Replenishment Negotiations (AsDF-9)

The AsDB and donors concluded negotiations on AsDF-9 in May 2004, agreeing to a number of important reforms. New offices were established inside the AsDBBank to assess the effectiveness of AsDB-funded projects and address the concerns of people adversely affected by AsDB programs. AsDB management committed to a more transparent and internationally accepted process for filling top management posts. With strong support from donors, AsDB management established a dedicated department to spearhead implementation of a new results measurement strategy throughout the institution. The AsDB also agreed to significantly increase the weight given to governance and performance in the formula used to determine country allocations. The AsDB has delegated more authority to Vice Presidents and is committed to a more transparent and participatory disclosure and communications policy. During the AsDF-9 negotiations, donors also agreed to establish a grants window in the AsDF. The AsDB continues to be strongly engaged in Afghanistan, has substantially increased its assistance for private sector development, and recently inaugurated a port security and anti-money laundering fund. The U.S. will be looking to President Chino's successor Haruhiko Kuroda, who takes over in February 2005, to build on these efforts.

Lending in Support of U.S. Foreign Policy Goals

- Afghanistan: Along with the UNDP, the World Bank, and the Islamic Development Bank, the AsDB is co-administrator of the Afghan Trust Fund. The AsDB has expanded its internal staff capability to position itself to respond to Afghanistan's urgent reconstruction needs, and has established a Resident Mission in Kabul.
- To date, the AsDB has committed \$518 million in soft loans and technical assistance grants for Afghanistan and has disbursed nearly 50% of the total. Among other things, AsDB monies are funding several infrastructure rehabilitation projects, an equity investment in a cellular network provider, and a road improvement project for settlement of returning refugees. At the International Conference on Reconstruction Assistance to Afghanistan held in Berlin in April, 2004, the AsDB pledged \$800 million in concessional loans and grants and \$200 million in private sector assistance for the period 2005-2008. This is on top of \$500 million announced in Berlin in 2002.
- Assistance for Tsunami Reconstruction: With strong encouragement from the U.S. and other key donors, the AsDB responded promptly to the Tsunami Disaster in South Asia. Within days of the December 26, 2004 disaster, the AsDB had pledged \$325 million for rehabilitation and reconstruction efforts in Sri Lanka, Maldives, and Indonesia. A week later, the AsDB more than doubled its contribution to \$675 million. In coordination with the World Bank, UN agencies, and bilateral donors, the AsDB is now conducting needs assessments in the three most severely affected tsunami countries. The AsDB, in coordination with other donors, will also fund and lead a \$1 million study to develop a tsunami early-warning system for the Indian Ocean. The AsDB will focus on transport and livelihood restoration in Sri Lanka; infrastructure rehabilitation (roads and communications),

water supply, and power in the Maldives; and health infrastructure, water and sanitation, and transport in Indonesia. The AsDB is considering the creation of a Tsunami Financing Facility that would expedite disbursement of concessional resources to affected countries and attract co-financing from bilateral donors. (*See also the Emergency and Disaster Assistance Section.*)

- Combating Terrorist Financing: 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 (AML), combating the financing of terrorism (CFT), customs modernization, and supply chain and port security.
- In 2004, Australia, Japan, and the United States each committed \$1 million to the CT Fund. The PRC, 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 AML/CFT and trade security organizations and identify projects for financing through the CT Fund. The first batch of projects in Indonesia and the Philippines were approved in November 2004.
- Anti-corruption: Corruption in the MDBs has been a focus of Congress and we are encouraged by the steps AsDB has taken over the past year to strengthen the scope and reach of its anti-corruption measures. The AsDB recently 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. In addition, Corruption and Fraud Awareness Workshops are held regularly for Bank staff.
- Trafficking in Persons: The AsDB is supporting efforts to combat trafficking in persons. The AsDB is taking steps to integrate human trafficking concerns into its lending operations, such as including activities to raise public awareness of human trafficking in its design of roads and education projects. Through its poverty reduction operations, the AsDB has also sponsored programs that address gender inequalities and provide social protection for groups highly vulnerable to trafficking. In addition, the AsDB also confronts the issues of human trafficking in the context of its Country Strategy Papers.

Results-Based Management and Development Effectiveness (see also the AsDB section)

- The U.S. has been a strong and consistent advocate for implementing 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 has established a dedicated Results Management Unit to oversee 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 hard, timebound data in its loan and country documents. Further, AsDB management has initiated a new human resources strategy that

rewards staff for achievement of development outcomes, rather than the quantity of loans approved.

- The Bank has taken important steps to improve its performance-based allocation (PBA) system. In December 2004, the AsDB established 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 as have triggers, which proved costly to implement and often served to obscure 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 we are glad that management will provide full disclosure of all country performance ratings starting in 2005.
- 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 affected by violations of AsDB policy.
- Measurable outcome indicators based on quantifiable baseline data have been incorporated into most country project documents. For example:
 - Afghanistan: The Andkhoy-Qaisar Road Project will increase per capita incomes 15% and reduce poverty by 10% in the project area within 3 years. Within 3 months of road completion, expected by December 2007, travel time from Andkhoy to Qaisar will be reduced from 8 hours to 2.5 hours, vehicle maintenance, freight, and travel costs will be reduced by 50%, and people will spend an average of 50% less time traveling to the nearest health clinic and primary school.
 - Bangladesh: The Secondary Towns Integrated Flood Protection Project will, in the project area, reduce the incidence of waterborne disease by 30%, increase the rate of income growth in the project towns by 1% per year, provide 80% coverage of sanitary latrines, increase land and property values in the towns by 10%, and provide full protection against a 1-in-50 years flood, all by 2010.
 - Laos: The Roads for Rural Development Project's goal is to facilitate economic and social integration of isolated populations and to increase income in the project zone by 20% by 2011. The extension of transport services along the project roads will reduce vehicle operating costs by 60% for cars, and 30% for trucks, and, by 2010, will lead to a reduction of average bus fares by 10% and freight rates by 20% in real terms.
 - Nepal: The Community-Managed Irrigated Agriculture Sector Project will ensure that farmers with less than 0.5 hectares of land achieve 100% or greater food self-sufficiency by 2011. By 2015, in the project area, permanent employment will increase by 3.3 million days, 35% of all women in project areas will participate in community programs, and the poorest farmers will improve the percentage of food grain production against household consumption from 90-165% to over 150-240%.

- 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, we continue to urge the Bank to reduce the large number of undisbursed loan commitments, which underscores problems with the absorptive capacity of borrowing countries as well as a continuing tendency to give priority to loan quantity over quality.

Fighting Poverty in Asia

- Two-thirds of the world's poor live in the Asia and Pacific Region, making poverty reduction a high priority. The AsDB's commitment to reducing poverty was reinforced with the adoption, in 1999, of a Board-approved poverty reduction strategy. Since that time, the Bank has taken a number of steps. For example:
 - The AsDB's Country Strategies are being more closely integrated with National Poverty Reduction Strategies, and the AsDB is establishing a more results-oriented monitoring and evaluation system. The importance of private sector development is being highlighted.
 - The AsDB is improving coordination with its development partners to reduce duplication and improve the quality of its analytical work.
 - To ensure implementation of the poverty reduction agenda, the AsDB is changing staff incentives to reward achievement of development outcomes and outputs rather than lending targets. This effort is already well underway. The Regional and Sustainable Development Department has also been given a stronger role in monitoring implementation, something the U.S. has been pressing.
 - After first establishing a poverty reduction unit as the focal point for AsDB operations, the AsDB has reorganized, and poverty reduction has been mainstreamed throughout its operations. The AsDB has 49 staff specifically dedicated to poverty reduction, social development, social protection, health and nutrition.
- By providing access to credit for small and medium-sized businesses through microfinance and small and medium-sized enterprise (SME) projects, the AsDB works to expand employment and income opportunities and support entrepreneurship at the lower end of the economic spectrum. Supporting SMEs requires steps to improve the business climate, as well as access to financial services. Recent examples of SME related projects include the following:
 - Vietnam: The AsDB is supporting the Government's efforts to create a business environment that is conducive to economic growth and employment generation by enhancing the policy and regulatory framework, improving SMEs' access to finance and

land use rights, developing unified accounting standards for small businesses, and facilitating SMEs' access to international markets by improving industrial/technical standards.

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

- The AsDB provides lending for basic health, particularly the fight against infectious diseases such as HIV/AIDS, through stand alone projects and including health components in infrastructure projects. In general, most major road projects include HIV/AIDS awareness campaigns for construction workers and local communities. During AsDF-9, donors and management agreed to set aside 2% of AsDF-9 resources starting in 2005 for use as grants in regional HIV/AIDS prevention and treatment programs. Projects with HIV/AIDS components include:
 - Pakistan: In November 2004, the Board approved a \$301 million road development project in the Northwest Frontier Province of Pakistan. The project includes a detailed training component on HIV/AIDS and trafficking in persons.
 - Nepal: The Subregional Transport Facilitation Project includes an HIV/AIDS awareness campaign and will provide facilities to prevent human trafficking.

Projects that address basic health needs include:

- Vietnam: The Health Care in the Central Highlands Project will focus on providing curative health services to the poor and disadvantaged while improving the affordability and utilization of health services.
- Uzbekistan: The Woman and Child Health Development Project will support primary health care reform and shift resources from urban hospitals to rural clinics serving needier communities.

Support for Education and Social Development

- The AsDB adopted a policy that focuses support on basic education. Countries that are otherwise performing well, but have the lowest education rates, and greatest need, will receive priority. In 2004, the AsDB approved \$315 million in education loans for eight countries. Recent examples of education and social development projects include:
 - Nepal: The \$20 million Skills Development Investment Project will give poor, rural women and special caste beneficiaries access to training that will help them learn basic skills leading to income generation and poverty reduction. The project also supports conflict resolution. About 25,000 beneficiaries will be helped by the project annually for the next five years.
 - Sri Lanka: The \$35 million Secondary Education Modernization Project will provide 1,000 secondary schools located in small towns and conflict areas with facilities,

curriculum, library, and improved teacher training materials. About 300,000 students will benefit annually.

- Uzbekistan: The \$25 million Textbook Development Project will fund facilities upgrades, library materials, classroom furniture and support for a “textbook bank” rental scheme that will help over 300,000 students.
- Pakistan: Health coverage will be expanded, maternal mortality rates decreased, school enrollment rates improved, and access to water and sanitation increased under the \$27 million Punjab Devolved Social Services Project. The goal of the project is to provide more equitable, efficient, effective and sustainable social services. In addition, technical training for out-of-school youths and women will be improved through two education projects in the North-West Frontier Province and the Baluchistan Province. 34 district governments and up to 44 town municipal administrations will benefit from the program.

Emergency and Disaster Assistance

- The AsDB does not provide humanitarian aid. It does, however, seek to respond to extreme emergencies, in concert with other agencies, by providing assistance for rehabilitation and reconstruction. The AsDB’s assistance is also focused on increasing the sustainability of basic infrastructure investments so that future disasters can be reduced or averted.
- The AsDB has 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 schedule, to ensure that funds are quickly made available.
- The following are examples of projects in this area:
 - South Asia: The AsDB responded with alacrity to the Tsunami Disaster in South Asia. Within days of the December 26, 2004 disaster, the AsDB had pledged \$325 million for rehabilitation and reconstruction efforts in Sri Lanka, Maldives, and Indonesia. A week later, the AsDB more than doubled its contribution to \$675 million. The AsDB, in coordination with the World Bank, UN agencies, and bilateral donors, is now conducting needs assessments in the three most severely affected tsunami countries. The AsDB, in coordination with other donors, will also fund and lead a \$1 million study to develop a tsunami early-warning system for the Indian Ocean. AsDB will focus on transport and livelihood restoration in Sri Lanka; infrastructure rehabilitation (roads and communications), water supply, and power in the Maldives; and health infrastructure, water and sanitation, and transport in Indonesia. The AsDB is considering the creation of a Tsunami Financing Facility that would expedite disbursement of concessional resources to affected countries and attract co-financing from bilateral donors.
 - Bangladesh: The devastating 2004 flood in Bangladesh caused severe damage to infrastructure and other assets, and disrupted economic activities, inflicting heavy losses on agricultural and industrial output. Combined losses of assets and output amounted to at least \$2.3 billion, constituting 3.9% of gross domestic product. The flooding also set

back progress achieved in poverty reduction, with the poor and the vulnerable suffering most in terms of loss to crops, livestock, property, and reduced income opportunities. The AsDB's management has proposed an assistance package of \$180 million, due for consideration by the Board of Directors in the second half of January 2005, for rehabilitation and restoration of damaged public infrastructure in five key sectors: rural infrastructure; roads; railways; water resources; and municipal infrastructure. The project will also support increased disaster preparedness and mitigation.

- Kyrgyz Republic: A technical assistance grant will help improve the capacity of the national and local authorities to reduce the vulnerability of the poor to natural disasters.
- In 2004, the AsDB adopted a new policy on emergency assistance, with the aim of strengthening the effectiveness and timeliness of development assistance to countries emerging from crisis, conflict, and natural disasters. That policy is now guiding the AsDB's response to countries affected by the Asian tsunami disaster and Bangladesh.

Environment and Sustainable Development

- Encouraged by persistent U.S. advocacy, the AsDB has adopted an array of policies and procedures to incorporate environmental considerations in its operations.
- All 73 projects and equity investments approved by AsDB's Board of Directors in 2004 were reviewed by the AsDB to ensure that environmental safeguard measures were sufficient to mitigate potential environmental impacts. A more rigorous review process was done for 51 projects comprising about 70% of all approved projects and equity investments. Projects with potentially significant environmental impacts, mostly in the transport and energy sectors, received special attention. The AsDB reviewed the environment risks posed by these projects, advised the borrowers in designing mitigation measures, and recommended additional safeguards, as necessary to ensure project compliance. In addition to regular review missions conducted by operational departments, environmental safeguard review missions were conducted in Bangladesh, Laos, China and Sri Lanka to assess compliance by selected projects under implementation. The AsDB also conducted three training sessions for staff on the Bank's environmental safeguards policy.
- In 2004, out of 58 approved public sector projects, eight projects, estimated at \$569 million, were specifically focused on the environment. These eight projects represent about 12 percent of total new public sector lending, an increase from 9 percent in 2002 and 5 percent in 2003. Lending for sustainable development environmental management has also become better integrated into operations. Recent examples of environmental projects include:
 - Azerbaijan: The Urban Water Supply and Sanitation Project in Azerbaijan will provide access to safe and reliable water supply and properly operating sewerage and wastewater treatment. The project will help conserve water resources and improve the environment by reducing stagnant water from overflowing sewers.

- China: The Fujian Soil Conservation and Rural Development II Project will address continued land degradation by promoting market mechanisms that incorporate conservation and poverty reduction. Years of intensive cultivation of marginal hill slopes using unsustainable farming practices have resulted in soil degradation in most of the project area. Rehabilitation and improvement of terraces, use of cover crops to reduce erosion and reforestation will help reverse this damage.
- Regional: In 2004, the AsDB initiated several regional and sub-regional programs, estimated to cost about \$9 million, targeted at protection of common regional environmental goods such as air, water, and biodiversity resources. Major areas of focus included support for urban air pollution control through the Clean Air Initiative in Asia, promotion of effective water management policies and practices, and encouragement of increased corporate environmentalism.
- In addition, AsDB approved about \$17 million in grants to improve the capacity of environmental institutions and promote environmental sustainability of economic development. Examples of these grants include assistance for air quality management in Kabul, Afghanistan; gas generation from waste in Indonesia; and development of a community-based micro-hydropower project in Tajikistan. Other technical assistance projects focused on strengthening institutions and building capacities for environmental and natural resource management, exploring alternative energy sources, combating land degradation, developing environmental monitoring and management information systems.
- In 2004, the United Nations Environment Program (UNEP) and AsDB, along with the WHO organized a High-Level Meeting on Health and Environment. AsDB also worked closely with the International Union for Conservation of Nature (IUCN) and in 2004 jointly organized the IUCN World Conservation Congress held in Bangkok.
- Given the importance of measures to address global environmental concerns, the AsDB has finalized a memorandum of understanding to strengthen its partnership with the Global Environment Facility (GEF) and permit the AsDB to administer GEF projects.

Core Labor Standards

- The AsDB Board approved a Social Protection Strategy in 2001 that requires all AsDB projects to comply with internationally recognized Core Labor Standards, and all social impact assessments to look at labor issues and vulnerabilities.
- There are positive signs that labor issues are increasingly being integrated into AsDB loans and non-lending products and services. In 2003, the AsDB published documents to educate staff and the general public about human trafficking, street children and other labor issues.
- The AsDB consults regularly with labor unions through participation in regional conferences on relevant issues. For example, on September 2-3, 2004, the Bank took part in the annual dialogue among the International Financial Institutions (IFIs) active in the region – the

International Monetary Fund, the World Bank and ADB – and the International Confederation of Free Trade Unions-Asia and Pacific Regional Organization.

- The AsDB also participated in the Regional Seminar of the International Federation of Building and Wood Working Trade Unions in Cambodia on October 13-15, 2004, and presented its views on labor standards and how they are being integrated into the AsDB's operations.
- In 2005, the AsDB has pledged to: integrate Core Labor Standards in the AsDB procurement process; issue a Handbook on Labor Standards to help staff incorporate labor standards in loan projects; increase the focus on labor issues in the public enterprise restructuring and privatization process; and explore labor issues in internal and external migration. In addition, the AsDB will hold a meeting with senior officials from the International Labor Organization in the first quarter of 2005 to discuss issues of strategic importance.
- Examples of country and regional programs that incorporate core labor standards include the following:
 - Bangladesh: A technical assistance project for the Social Protection of Poor Female Workers in the Garment Sector in the Context of Changing Trade Environments will help the government to provide assistance to female garment workers and to facilitate the reemployment of those who are laid-off. AsDB money will finance pilot programs that demonstrate the possibilities for reemployment and show the feasibility of safety nets for garment workers.
 - Kyrgyz Republic: A \$500,000 technical assistance grant aims to raise awareness of human trafficking and HIV/AIDS transmission among construction workers, sex workers, local communities, truck drivers, border officers and other road users..
 - Regional: The Bank is sponsoring a \$700,000 technical assistance project to raise awareness of trafficking in women in the Greater Mekong Subregion. The project aims to increase the capacity of developing countries to combat trafficking and promote safe migration.

Technical Assistance

- The Bank provides technical assistance (TA), usually in the form of grants, for advisory services and capacity building. In 2004, a total of 330 grant projects for approximately \$195 million were approved. Many of these TA projects help to build capacity, support policy reforms, and strengthen governance, and an increasing portion are being used to fund knowledge products and services. Examples of projects financed by TA include:
 - Philippines: Given the responsibilities devoted to local government units in the Philippines, provincial, municipal and city governments can play a crucial role in local economic development, poverty reduction and regional development. Through a technical assistance project for Strengthening Provincial and Local Planning and

Expenditure Management approved in 2004, the AsDB is helping provinces and selected cities to improve their capacity for effective planning, budgeting, and revenue collection.

- Pakistan: Chronic start-up delays in development projects adversely affect achievement of project goals, contribute to cost overruns, and increase the cost of borrowing. The technical assistance for Streamlining Procedures to Reduce Delays in Start-Up of Development Projects in Pakistan will help the federal and provincial governments and the AsDB to identify key issues and factors and implement a plan to reduce delays.
- Timor-Leste: Since the government's current policy is to avoid borrowing, the AsDB has been using its limited grant funding to improve infrastructure and build local capacity. The technical assistance for Strengthening Financial Management Capacity in Timor-Leste project is expected to improve the government's capacity for economic and financial planning and management. The program will build capacity for competent public administration and enable the government to administer programs with minimal external assistance.

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.