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Statement by

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On behalf of the Asian Development Bank (ADB), I wish to express our appreciation for the invitation to attend the 74th meeting of the Development Committee as an Observer.

Sustained Growth and Poverty Reduction in Asia

The Asia and Pacific region has been experiencing high and sustained economic growth in recent years. While the outlook for the region will clearly depend on the global economic prospects, these are seen as remaining broadly favorable and supportive of growth in the region. The region is favored by geography, demographics, and the conviction among leading policymakers that integration with the global economy will strengthen the region. Asian economies will take strength from the continuing upswing in the global electronics sector and fast growth expected in China and India. According to ADB’s recent forecast, annual GDP growth for the region as a whole is expected to be at 7.7% in 2006 and 7.1% in 2007. Developing Asia is well-positioned for sustained growth over the medium-term, although there are several risk factors such as disruptive resolution of global imbalances, rising inflation, and further rise in oil prices.

The Region Faces Major Challenges

The rapid decline in poverty notwithstanding, the absolute number of poor people in the region remains very large (around two-thirds of the world’s poorest people) and inequality is increasing both within and among countries. ADB estimates suggest that more than 600 million people in the region are surviving on less than $1 a day. Non-income poverty is proving to be persistent, as evidenced by the millions of children living in hunger, unacceptably high maternal and child mortality, poor quality education in many countries, and lack of access to adequate water and sanitation. Although the region is on track to meet the millennium development goal (MDG) target of reducing by half the proportion of people living on less than a dollar a day, it is unlikely to meet the MDGs for reducing non-income poverty. The region also faces challenges of environmental degradation, inadequate infrastructure and energy supplies, major natural disasters, rapid urbanization and migration, as well as threats of regional or global pandemics.

The effectiveness of overcoming these challenges depends on how the costs and benefits of growth are distributed and how far the growth process creates opportunities for poor people to participate in economic activity. Growth alone cannot eradicate poverty without public action by governments in the region to tackle problems of exclusion, marginalization and the threat of rising inequality. In response to the prevailing situation in and emerging challenges of the Asia and Pacific Region, ADB has adopted the second medium-term strategy (MTS II) covering 2006 – 2008. MTS II aims to strengthen the impact of ADB’s assistance on poverty reduction by focusing on five strategic priorities; catalyzing investment, strengthening inclusiveness,
promoting regional cooperation and integration, managing the environment, and improving governance and preventing corruption. Simultaneously, ADB is in the process of initiating the review of its long-term strategic framework to enhance its effectiveness and relevance as a development bank operating in a dynamic and challenging region.

The following sections discuss some of ADB’s main responses to the key developmental challenges of the region.

**Strengthening Good Governance and Combating Corruption**

The state plays a key role in promoting growth and poverty reduction for Asia and the Pacific region. A supportive policy environment to foster trade, investment and technological development is a critical determinant of the economic success of many countries in the region. But the continued centrality of state institutions in many Asian countries also poses severe governance challenges. Corruption is a problem faced to varying degrees by many Asian countries. Governments in the region have been making efforts to contain the problem through the formation of anticorruption agencies, vigilant commissions and improved legal measures to punish corrupt officials. These are beginning to produce results, but more should be done to reduce the opportunities and incentives for corruption.

ADB recognizes the importance of good governance for equity and pro-poor development. ADB works with governments to strengthen governance, improve institutions and reduce vulnerability to corruption. ADB has recently reviewed its Governance and Anticorruption Policies and has prepared a second governance and anticorruption action plan. Under the action plan, ADB will assess governance and corruption risks at the country, sector and project levels, and develop plans to manage and mitigate these risks. Given ADB’s limited resources, the action plan is focused on public financial management, procurement and corruption, concentrating efforts in sectors ADB has operational activities. That said, depending on country demand and ADB’s comparative advantage, broader governance initiatives and programs at the country level will also be supported.

Collaboration and coordination among development finance institutions is critical for achieving progress on governance and anticorruption. Donor agencies, including ADB, are investing substantial resources to assist countries to improve governance and control corruption. Some examples of country-level good practice on harmonization are emerging. But a greater effort needs to be made to ensure complementarity in this work. Cooperation could lead to innovative approaches that yield stronger improvements in governance over time. Cooperation could focus on sharing of information and joint diagnostic work; well-aligned donor support to government-led governance and anticorruption programs; coordinated country strategies, where governments may request and require support across a range of governance and anticorruption matters drawing on the different capacities of agencies that are present within the country; and support for initiatives to promote collective action for governance and anticorruption.

In February 2006, the heads of the African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, European Investment Bank, Inter-American Development Bank, International Monetary Fund and the World Bank agreed on the
need to standardize their definition of corruption and develop a common framework for preventing and combating fraud and corruption. An interagency task force was established for these purposes. The task force has now completed its work and has agreed in principle on standardized definitions of corrupt and fraudulent practices and on common principles and guidelines for investigations. On 17 September 2006, the leaders of the above-mentioned seven institutions adopted the framework recommended by the task force.

Supporting the Weakly Performing Countries

Many of the region’s poor people live in countries with weak governance, ineffective public administration, and civil unrest. The challenges involved in working effectively with these weakly performing countries are many. They include; (i) weak policy formulation, policy implementation, and management capacity; (ii) small, isolated market conditions; (iii) physical and social disruption linked to violent conflict; (iv) meager public sector resources; and volatility and unpredictability of aid flows. Under these conditions a concerted attention is required, examining critically the local conditions with the aim to find ways of working more effectively.

ADB has remained engaged with these countries through lending operations and technical assistance, country programming, and ongoing dialogue with governments, country-level stakeholders, and development partners. Though extreme cases may prompt ADB to consider suspending operations, it would be our intent to monitor the situation and identify entry points for re-engagement. Technical assistance continues to be important even when lending levels decline.

ADB’s approach is based on two pillars:

(i) **Selectivity and focus.** ADB must be realistic in its objectives and develop selective, focused, and inclusive programs in weakly performing countries. Interventions should include a consistent focus on policy and institutional reform, with an emphasis on achieving early benefits.

(ii) **Strategic partnerships.** ADB, consistent with the Paris Declaration and other global commitments to harmonization and alignment, collaborates closely with its development partners to avoid duplication of effort and allow each institution to focus on its respective comparative advantages.

ADB is aware of and participates in the global dialogue on weak performance and fragility and continues to (i) refine a logical approach to identifying and defining weak performance, (ii) re-think its operational planning, and (iii) adapt its business processes and instruments. Each country is unique and the specific application and sequence of activities should be grounded in country analysis and dialogue. The approach is now in its formative stage and is expected to evolve over time.

The Continuing Need to Assist Middle Income Countries

In Asia as well as elsewhere, middle income countries (MICs) have become important economic players at both regional and global levels. They also play an increasingly important
role in the areas of global public goods such as trade integration, global financing stability, environmental protection, and the fights against communicable diseases. Should they fail to address these issues internally, there would be major implications well beyond their own borders. MICs vary widely with regard to income, poverty incidence, capital market access and the progress they have made in policy reform and institution building. MDB support therefore needs to be highly customized to the development needs of each country. Providing effective assistance to MICs in Asia is essential if ADB is to achieve its vision of an Asia and Pacific region free of poverty.

Again, in Asia as well as in other regions, MICs’ interest in external assistance is evolving: (i) a broadening of assistance to include programmatic approaches such as policy based lending and sector wide approaches; (ii) increasingly drawing on Multilateral Financial Institution’s (MFI’s) products to mitigate risks such as guarantees and local currency lending; (iii) increased support to the private sector and sub-sovereign entities; and (iv) analytic and advisory work provided by MFIs particularly in cutting-edge areas.

ADB, along with other MDBs, have taken actions in recent years to enhance their support to middle-income countries. Efforts have concentrated in three main areas: (i) simplification and harmonization of existing operational procedures; (ii) introduction of new operational and financial policies and instruments; and (iii) strengthened collaboration among MDBs to maximize individual and collective impact on development results at the country level. ADB has been collaborating with other MDBs through MFB working group on MICs. In April this year, ADB and the World Bank jointly undertook regional consultation with Asian MICs. The event promoted an active exchange of views. Overall, MICs recognized that MDBs can continue to play an important role in supporting their growth and development agenda but identified areas where more work is needed. In July this year, ADB reported to its Board of Directors on measures that are expected to reduce costs to MICs from doing business with ADB, enhancing and expanding the range of lending and nonlending instruments, and enhancing service quality. Some measures have already been approved and are currently being implemented. Others are for consideration in the remainder of 2006 and 2007. The main challenge now will be to maintain the momentum for continuous improvement in the planning and design of a strong portfolio of cost effective operations in our MICs.

**Clean Energy and Energy Efficiency**

Climate change, clean energy and sustainable development are a priority of the international community, as evidenced by the G8 Gleneagles Plan of Action, July 2005. ADB has been working closely with other MDBs on an associated investment framework. ADB is taking the lead on energy efficiency in the transport sector and has provided inputs that have highlighted Energy Efficiency Initiative and Carbon Market Initiative.

ADB has established the Energy Efficiency Initiative (EEI) in July 2005 with a mandate to: (i) compile and analyze existing knowledge and experience on energy efficiency (EE) policies, potential investments and strategies, from in-house, DMC and international expert sources; (ii) identify strategies for expanding ADB EE investments and activities; and (iii) define a near- and medium-term operational plan. EEI will define a cohesive way forward for ADB to
expand its EE investments, with an indicative target of $1 billion per year by 2008. EEI is being implemented in three phases. Phase I was completed in June 2006 with the approval of ADB’s Management of the EEI Report that firmly establishes the rationale for expanded and sustained ADB action and EE investment, defines the general principles of the EE investment and action plan, and provides priorities and a framework for next steps. Phase II (ongoing from July 2006 through December 2007) will: (i) develop country-level and regional strategies and action plans on how to reach the target set for EEI, and (ii) develop the Asia Pacific Fund for Energy Efficiency. Immediate EE investment opportunities will be pursued even during Phase II. The strategies and action plans will be implemented in Phase III (2007–2010).

While many countries and institutions have launched funds to purchase carbon credits on payment-on-delivery terms from projects, there are still very few vehicles that make funds available upfront to co-finance projects that promote development and greenhouse gas (GHG) reduction to move forward. A critical lack of project financing exists, and many have suggested that governments and MDBs should play a greater role in stimulating investment in such projects, rather than just focusing on back-end procurement of carbon credits from projects that are already happening.

ADB’s Carbon Market Initiative explores an ADB-backed cofinancing scheme that will help address the aforementioned financing gaps. The proposal is intended to explore the following three interrelated activities:

- Establishment of a special cofinancing facility, focusing on the implementation phase of projects;
- Provision of marketing/brokerage support to developers and sponsors with projects with carbon credit content; and
- Technical services to operations departments – covering work at the country partnership strategy, project processing and implementation level.

ADB is working to establish regional knowledge hubs to act as regional think tanks for ADB as well as DMCs on clean energy. The knowledge hubs will support and strengthen the Asia-Pacific’s regional capacity to generate innovative concepts, science, technology, and management development on clean energy. They will also promote information exchange and sharing of knowledge by establishing a network on clean energy among the regional institutes. ADB will provide technical expertise and financial support to establish and operate the knowledge hubs in the selected topics. Initially, three knowledge hubs have been identified: (i) The Energy Research Institute in New Delhi, India for renewable energy, (ii) Tsinghua University in Beijing, People’s Republic of China for energy efficiency and CDM, and (iii) Asian Institute of Technology in Bangkok, Thailand for 3R (reduce, reuse and recycle).

**Trade Facilitation**

ADB adopted a new strategy to guide its work on regional cooperation and integration in July 2006. The strategy aims to build and deepen integration in four interrelated pillars; regional and sub-regional programs on cross-border infrastructure and related software, trade and
investment, monetary and finance, and regional public goods such as prevention of communicable diseases and environmental degradation. Of the four pillars, ADB has been extensively involved in cross-boarder infrastructure projects, monetary and finance, and promotion of regional public goods. ADB’s involvement in Trade, however, has thus far been limited.

In terms of trade liberalization, ADB recognizes the WTO-led process of multilateral trade negotiation as the most important mechanism for Asia and the Pacific, given that the region’s economic future depends to a significant extent on the openness of global markets. The Doha Round of World Trade Organizations (WTO) negotiations has been suspended indefinitely and prospects for a restart remain undefined. But the countries of developing Asia can do a number of positive things on their own.

First, since the largest benefits from liberalization accrue to those economies that lower barriers to their own markets, governments should go it alone and liberalize on a unilateral basis, lowering tariffs and other barriers, including those that are “behind the border,” such as licensing requirements. Second, the benefits of trade facilitation measures are potentially large and open to all countries, and investments in streamlining customs procedures or improving port infrastructure, for example, help move goods to market more quickly and at less cost. Third, within existing regional and bilateral agreements, frictions to trade can be lowered by paring back exemptions and expanding coverage—not just in manufactures but also in agriculture and services—and by simplifying and rationalizing crisscrossing and often incompatible rules of origin that are both costly to administer and to comply with.

In terms of regional cooperation in trade facilitation, how to improve transparency, efficiency, and procedural uniformity of cross-border transportation of goods has increasingly become a major concern for DMCs. According to an APEC study, clearing the red tape at country borders would generate approximately twice as much GDP than tariff liberalization would. Trade facilitation measures would particularly benefit developing countries, where the inefficiencies are sometimes more costly to industries than are tariff barrier. However, many DMCs do not have the resources necessary to undertake trade facilitation measures (e.g., updating their customs procedures to more modern technological standards and harmonization of standards). With a track record of supporting trade facilitation in some of its regional and subregional cooperation programs, ADB is well placed to provide capacity building support to DMCs in promoting trade facilitation.

Taking these factors into account, ADB can play a more proactive role in aid for trade. Besides financing of infrastructure that would support trade, such ADB activities could include: (i) support to regional and subregional forums by playing a facilitating role in regional trade and investment policy dialogues; (ii) capacity and institutional development for DMCs on issues related to free-trade agreements and trade facilitation; (iii) research and information dissemination, including support for establishing a database on institutions that support regional cooperation and integration in trade and investment in Asia and the Pacific as well as elsewhere.
Staying Engaged with Developing Asia

In conclusion, let me again emphasize that poverty in developing Asia presents challenges that require the continued engagement and strong support of the international community. And collective action is at the core of effective development assistance to the region. Such collective action should encompass partnerships among developed and developing countries, multilateral and bilateral institutions, civil society, and the private sector. Among these, multilateral institutions represent an effective intergovernmental system that combines knowledge, skills, financial resources and special relationship with governments to address priority development challenges. A multilateral development finance institution, such as ADB, provides a sound institutional framework to build, enlarge and sustain a broad coalition of interests and commitments to tackle poverty.

Collective action is effective not just at the global level but also at the regional and subregional levels. Such regional collective actions, assisted by ADB with its regional mandate, can reinforce national development efforts, and make effective regional contributions to addressing global challenges.