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 81st meeting of the Development Committee as an observer.

A. Asia's Recovery

Developing Asia weathered the harsh global environment in 2009 well. It was the first region to emerge from the global turmoil, helped by decisive policy responses. Though most economies in East Asia contracted in 2009, solid growth in the People’s Republic of China (PRC) buoyed the aggregate performance. Overall GDP expanded 5.9%, largely due to 8.7% growth in the PRC, which was based heavily on exceptional fiscal and monetary stimulus adopted to combat the impact of the global recession. The Republic of Korea grew marginally, also helped by fiscal stimulus, but global headwinds battered Hong Kong, China; Mongolia; and Taipei, China, all of which contracted in 2009. Southeast Asia’s growth slowed sharply to just 1.2% in 2009, the weakest outcome since the 1997–98 Asian financial crisis. South Asian growth edged up to 6.5% in 2009 from 6.4% in 2008, but only India and Afghanistan saw gains. In Central Asia, growth fell by half for a second year, to 2.7% from 6.1% in 2008, with all countries putting in a weaker performance. Aggregate growth in the Pacific decelerated to 2.3% in 2009, from 5.4% a year earlier.

Prospects for developing Asia in the next two years have improved after better than expected growth in the second half of 2009. GDP is projected to grow by 7.5% in 2010 as a moderate global recovery supports a modest revival in global trade. Investment is expected to remain strong as the stimulus measures of last year continue to have a positive impact. Private consumption is projected to improve as income prospects pick up and unemployment continues to decline. The region faces the challenge nonetheless of maintaining momentum against the backdrop of a gradual unwinding of expansionary measures and a slow pickup in external demand.

As recovery takes hold, inflation pressures, particularly in asset prices, may well start to mount in the region. Inflation is projected to increase, but to a still moderate 4.0% in 2010, conditional on the implementation of appropriate policy measures. Unusually easy monetary policy throughout the region cannot be kept for too long, and there is a need to revert to a normal stance. The surplus in developing Asia’s current account balance narrowed for a second consecutive year to 4.9% of gross domestic product (GDP) in 2009 from a recent peak of 6.5% in 2007. It is forecast to narrow further to 4.1% in 2010 and 3.6% in 2011.

Several downside risks to the global outlook—a slower global recovery, mistimed withdrawal of macroeconomic stimulus measures, a sharp increase in international commodity prices, deteriorating fiscal positions, and the persistence of global imbalances—could derail developing Asia’s growth momentum. In addition, the region’s stronger recovery and higher interest rates relative to those in the major industrial countries are already attracting potentially volatile capital flows, complicating macroeconomic management. Rising food prices, which disproportionately impact the poor, also pose a risk.
There is plenty of scope for improving and strengthening Asia’s monetary, exchange rate, and fiscal policy frameworks. Such adjustments will enable the region to better adapt to the post-crisis world. While price stability must remain the overriding objective of monetary policy, the global crisis highlights the need to prevent asset price bubbles, suggesting a need to improve coordination between financial regulation and monetary policy. In fiscal policy, while it is of paramount importance to safeguard sustainability with strong medium-term fiscal policy frameworks, a wide range of measures can contribute to more balanced growth by removing structural impediments to domestic demand. Finally, more flexible exchange rate systems are in the region’s own interest, and carefully designed capital controls that mitigate disruptive capital inflows may be desirable during the transition to greater flexibility, at least in the short run.

B. ADB's Response to the Crisis and Beyond

Economic Challenges in the Region

The region's poorest developing member countries (DMCs) still need significant financial support to provide further fiscal stimulus to cushion the impact of the crisis on growth and to finance social safety nets for vulnerable people. For countries that managed to use fiscal policies to counter the adverse impact of the crisis, fiscal sustainability and inflation risks are rising. While developing Asia is leading the global economic recovery, there is concern that it may take much longer for poorer DMCs to return to pre-crisis growth paths. As long as unemployment in many developed countries and middle income countries is still rising or stagnant at high levels, demands for exports, remittances and tourism revenues will likely remain below their pre-crisis levels. Over the medium term, countries should start to plan their exit strategies within the context of a strong medium term fiscal policy framework to ensure fiscal sustainability. In the longer term, countries may need to rebalance their growth model to reduce their vulnerability to external shocks. Rebalancing Asia's growth does not mean turning away from the region's traditional high level of openness in trade and financial capital flows. Rather, it will involve: (i) stimulating regional demand through investment, consumption and intra-regional trade to reduce reliance on export demand from other parts of the world; (ii) ensuring that the region's savings are optimally invested, including greater use of savings at home rather than exporting them overseas, and (iii) promoting conducive economic policies to encourage domestic consumption and investment.

Strengthening Economic Recovery Efforts

ADB increased its lending operations considerably in response to the crisis. Its lending allocations grew significantly from $22.5 billion in 2007-2008 to $32.8 billion in 2009-2010 (including $16.1 billion in 2009). ADB established a $3 billion Countercyclical Support Facility in June 2009. ADB approved the allocation of an additional $400 million Asian Development Fund (ADF) concessional commitment authority in June 2009 to help these countries cope with the crisis. Many countries still need significant support from external sources but financial assistance should be accompanied by strong oversight over the quality of expenditures. Carefully designed and targeted fiscal programs to meet growth, human development, and sustainability objectives can generate demand and protect vulnerable groups in the short run, while maintaining investments and progress on long-term development goals. Fiscal programs should be developed within the context of a strong medium term fiscal policy framework to ensure sustainability.

As the recovery gathers momentum, and in line with priorities outlined under the long-term strategic framework, Strategy 2020, ADB is supporting its DMCs' inclusive growth efforts through priority infrastructure investments that help expand economic opportunities and connect the disadvantaged to markets; protecting and expanding public expenditures in the social sectors; building
appropriate, effective and sustainable social safety nets; and supporting the education sector to improve flexibility and relevance of skills training systems.

ADB is also providing advice and assistance to its DMCs to ensure that the region's savings are optimally invested through (i) a broader array of financial market instruments (insurance, corporate bond markets, currency futures etc), which would provide more options for saving, borrowing and hedging risks; (ii) a better-functioning financial system that could channel capital into more productive uses, providing credit to corporations and entrepreneurs and promoting entrepreneurial activity; and (iii) policies and activities ensuring that a broader share of the population, especially in rural areas, gain access to the formal financial system, including banking, insurance, and securities markets.

Lastly, there is also need to promote regional cooperation and intra-regional trade. Strengthening intra-regional trade, especially for final goods, can help reduce overdependence on exports to industrial countries and provide an additional engine for both short-term recovery and long-term growth. Asian countries should also work together to strengthen the region's financial sectors, with appropriate macroprudential oversight, and further consider the role that Asia's regional reserves pooling (through, for example, the Chiang Mai Initiative) may play in providing regional financial insurance.

C. Increased Commitment to Good Governance and Capacity to Achieve Results

To fulfill its commitments under Strategy 2020, its ninth ADF replenishment, and its fifth General Capital Increase, ADB has undertaken a number of initiatives relating to major operational changes, improving coherence of corporate policies and strategies, and increasing corporate responsiveness.

The Risk Management Unit (established in August 2005) was upgraded to the Office of Risk Management (ORM) effective 1 October 2009, to bring ADB's risk management function in line with best market practice, including that of other multilateral development banks (MDBs), and to ensure greater efficiency and effectiveness of risk management operations. ORM staff is being increased. In October, ADB approved a new exposure management policy for its nonsovereign operations (NSOs), which ensures the growth of NSO exposure envisaged under Strategy 2020 to be within ADB’s risk-bearing capacity.

ADB separated its Integrity Division (which was created in January 2005) from the Office of the Auditor General and established the Office of Anticorruption and Integrity (OAI) effective 1 October 2009 to ensure independence and impartiality in the conduct of investigations and other activities, pursuant to ADB’s Anticorruption Policy approved by the Board of Directors in July 1998. As part of its overall efforts to encourage reporting of integrity violations and misconduct, ADB introduced in December 2009 new provisions for whistleblower and witness protection. Among other things, the provisions improve accessibility of information about how to respond to retaliation related to whistleblowing, and provide clarity on the remedies for retaliation against whistleblowers. ADB also recently reviewed its existing approach to non-disclosure of its sanctions list, resulting in all ADB staff, members of the Board of Directors and partner institutions now having access to the sanctions list. ADB signed on 9 April 2010 a joint agreement with other MDBs allowing for cross department

ADB’s anti-money laundering (AML) initiatives related to combating the financing of terrorism (CFT) are guided by the 2003 policy on Enhancing the Asian Development Bank’s Role in Combating Money Laundering and the Financing of Terrorism. Policy requirements to strengthen ADB's internal controls to safeguard its own funds are addressed through ADB's AML/CFT compliance program, which aims to identify, mitigate, and manage ADB's risks. An independent review of the program was undertaken in 2009 to ensure compliance with international best practices as they apply to international
financial institutions and program effectiveness. The assessment found that ADB has been increasingly harmonizing its procedures with other multilateral development banks and international financial institutions, particularly in private sector operations. Additional work is being undertaken to enhance procedures and training programs to raise staff awareness.

Since the approval of its public communications policy (PCP) in April 2005, ADB has become more transparent in the way it communicates with the public and shares information with its stakeholders, particularly about ADB projects. The PCP is based on a presumption in favor of disclosure, unless there is a compelling reason not to disclose. The PCP is a very open policy, which has resulted in making substantially more information about ADB available to external audience, and, in the process, has helped raise public awareness of ADB's role, objectives and operations. Under the PCP, project documents, policy and strategy papers, agendas, and minutes of Board meetings are freely available to the public, as are documents prepared in the normal course of project design and implementation. A comprehensive review of the PCP was initiated in January 2010 to assess whether the overall objectives of the policy are being achieved and whether there are any gaps that need to be filled. The review will make recommendations on how to further improve access to information as necessary.

ADB intends to initiate a review of its accountability mechanism, established in May 2003. The current mechanism has some good features, including separate provisions for problem solving and compliance reviews. ADB's Board Compliance Review Committee had recommended that the review be undertaken after the completion of the Safeguard Policy Update. ADB approved the Safeguard Policy Statement on 20 July 2009. The accountability mechanism review will start soon.

ADB is also committed to institutional effectiveness by continually improving its human resources management. The 2008 comprehensive review of the human resources strategy (2005–2007) underscored the importance of linking ADB's human resource management to its business strategy to support and deliver the results required by Strategy 2020. The results of both the review and the 2008 staff engagement survey were used to develop a detailed, time-bound Human Resources Action Plan, which was adopted in March 2009. A human resources committee of the Board was also created to oversee this work. ADB launched on 2 February 2010 "Our People Strategy," a comprehensive human resources plan to recruit, retain, and develop the staff it needs to carry out its mission of reducing poverty and improving lives throughout Asia and the Pacific.

In September 2008, ADB became the first MDB to adopt a corporate-wide results framework. Since the approval of the corporate results framework, ADB has continued to sharpen its focus on results through (i) regular performance monitoring and action planning; (ii) annual publication of Development Effectiveness Reviews, which evaluated and reported on ADB’s performance in 2007, 2008 and 2009 using the corporate results framework; (iii) better approaches and tools for results-focused country operations planning, monitoring, and reporting; and (iv) user-friendly management information systems. In September 2009, ADB Management approved a new action plan to institutionalize the managing for development results (MfDR) approach, support MfDR capacity development in developing member countries, and build partnerships with development organizations on global and regional MfDR initiatives.

ADB continues to implement and monitor its own progress toward the Paris Declaration on Aid Effectiveness commitments. Together with its development partners, ADB is working to localize the Paris Declaration in Asia and the Pacific. In March 2009, ADB launched a joint donor initiative called the Capacity Development Facility for Development Effectiveness, which facilitates capacity development of DMCs on preparation of their own localized action plans on the Paris Declaration. ADB measures the progress achieved via its own monitoring survey of the Paris Declaration implementation. So far, ADB has conducted three surveys (the latest one and most comprehensive covered 25 of ADB's 40 borrowing
developing member countries). The latest report which has just been issued shows that ADB has made considerable progress in all its commitments on aid effectiveness, except on joint analytical work. Greater efforts will be required in this area to meet the Paris Declaration targets by the 2010 deadline.

ADB recently completed an assessment of its business processes. The work aimed to improve efficiencies and streamline business processes, without sacrificing quality, in two areas: country partnership strategy and loan delivery. Working groups were established to consider options for streamlining documentation in these areas, and for reducing complex processing steps and reviews. The recommendations of the working groups were approved by Management in November 2009 and are being implemented since January 2010.

Based on the promising results to date, ADB is committed to continuing and intensifying, wherever necessary, the reform agenda that it has set itself.