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BOARD OF GOVERNORS

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Kenneth L. Peel, Temporary Alternate Governor

I am honored to be in Hyderabad for the 39th Annual Meeting of the Board of Governors of the Asian Development Bank (ADB). My colleague, Under Secretary Adams, unfortunately had to return to the United States late last night due to an unexpected event. On his behalf, I would like to thank our gracious hosts—Indian Finance Minister Chidambaram and ADB's President Kuroda. We have felt very welcome here. ADB is a very important institution in a very important part of the world for the United States, and I am pleased to have this opportunity to address its role in promoting private-sector led growth and reducing poverty in Asia.

REGIONAL ECONOMIC DEVELOPMENTS

Asia's dynamism is apparent. Economies in the region have grown rapidly in the last few years, more than simply rebounding from the economic turmoil that rocked the region less than a decade ago. Today, three of the world's four largest economies are in Asia. In recognition of this, the United States has intensified its economic relationship with the region. Of course, many countries in Asia still face a number of core development challenges, such as how to move rural products to urban markets and to provide universal access to primary education.

Over the last week Tim Adams and our team have met with top Indian and foreign business leaders in Mumbai and Kolkata to discuss their experiences in growing their businesses. India should now focus its development efforts on rural areas in order to extend the benefits of economic growth to the countryside. South Asia has shown that expanding the role of the private sector brings great benefits to growth and productivity.

In transitioning to a market economy, the People's Republic of China (PRC) has seen its standard of living surge. The PRC's efforts to reform its economy are key as it becomes a major player in the global economy. Along with that of the United States, the PRC's growth has contributed significantly to global growth since 2000.

However, Asia's dynamism extends beyond India and the PRC. Southeast Asia has demonstrated that political will helps lead to faster domestic growth. Two months ago Under Secretary Adams traveled through this region and was impressed by the monetary, fiscal and structural reforms that Malaysia, the Philippines and Singapore are implementing. We also welcome the policy initiatives in Indonesia, focusing on improving the investment climate, strengthening infrastructure, and modernizing the financial system.

But the strong growth and low inflation of the last few years also came with an emergence of global imbalances that should be addressed so that rapid global growth can be sustained.



Economic adjustment is a shared responsibility to improve global imbalances and economic development. Asian economies have a critical role to play in global adjustment through pursuing greater exchange rate flexibility, strengthening domestic demand, and financial sector reform.

ROLE OF THE ASIAN DEVELOPMENT BANK

Over the last year, ADB has played a valuable role in responding to the region's urgent needs. The bank's flexible and skilled responses to the tragedies of the tsunami and the South Asia earthquake and the looming threat of avian influenza are to be applauded. These efforts are continuing, of course, and the hard work of the hundreds of staff members involved is truly appreciated by the United States.

Regional economic integration is certainly a key part of Asian growth. Much of ADB's work in this area over the years has been valuable. Good examples include promoting regional trade and infrastructure linkages and regional public goods, and we encourage continuing efforts along these lines, consistent with ADB's core focus: poverty reduction through growth. While regional surveillance and the study of potential regional currencies are certainly worthy endeavors, we cannot afford to divert scarce human and financial resources from ADB's core mission.

Ensuring accountability, transparency, and strong development impact are the cornerstones of the Bush Administration's economic development agenda. The Asian Development Fund (ADF) replenishment in 2004 was a significant milestone for ADB through its commitments to better results measurement and a new grant financing window for poorer countries. As shareholders, we must encourage ADB to become even more transparent, responsive, and results-oriented. I want to highlight three critical elements of ADB's agenda: measuring results, fighting corruption and supporting private sector growth.

While there has been some progress, overall actual implementation of the ADF IX commitments remains disappointingly slow. We appreciate the good work being done, such as the results-based country strategies, but want quantitative targets to be incorporated consistently in all projects and we need progress in implementing a new incentive system that rewards staff for development impacts, not increasing lending targets. Senior-level leadership and accountability are needed to make progress on ADB's reform agenda. We look forward to the ADF IX mid-term review—which should be held this summer but in any event no later than September in Singapore—to take full stock of progress.

Fighting corruption remains a top priority across the multilateral development banks (MDBs), and we were encouraged by the recent agreement in Washington by President Kuroda and his colleagues to work together on this endeavor. Corruption compromises development like no other impediment, resulting in squandered resources and ineffective efforts to combat illiteracy, disease, high infant mortality, and a polluted environment. Put simply, corruption is a tax on the poor and we will not tolerate it. ADB has made progress in its anticorruption work through more spending on governance programs, strengthening the governance indicator in the performance-based allocation system, and bolstering the internal investigations capacity. Yet more work remains. The key areas include: harmonizing anti-corruption and procurement efforts across MDBs to the highest international standards (including cross-debarment and published lists of disqualified firms), increasing transparency and access to information, and building internal mechanisms to ensure accountability.

ADB's private sector operations—which have grown quickly in recent years—have reaped positive results as more companies are able to access resources and expertise. ADB

should continue to create the right regulatory environment to foster strong public-private partnerships to support growth, while ensuring development additionality rather than cherry picking the natural winners. The MDBs were established to blaze development trails by taking risks that the commercial markets were unprepared to assume, not to compete with or crowd out willing private-sector actors. ADB has demonstrated its capacity to promote private-sector growth, and it should continue to lead the way in this spirit.

In conclusion, ADB cannot be all things to all countries and all sectors. Selectively targeting ADB's resources to its comparative advantage will help the Bank fulfill its core mission and maintain its relevance in the region. The United States remains a supportive and willing partner with ADB in this quest, and we look forward to our continued good relationship.