

# ADB

## NEWS from ERO

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# Fighting poverty in Asia: from vision to action

*The following is the opening address of Asian Development Bank (ADB) President Tadao Chino at the 33<sup>rd</sup> Annual Meeting of ADB's Board of Governors in Chiang Mai, Thailand.*

Your excellencies, ladies, and gentlemen, I am delighted to join the Chairman, His Excellency Tarrin Nimmanahaeminda, in welcoming you to the Thirty-Third Annual Meeting of the Board of Governors of the Asian Development Bank (ADB).

I extend my deep appreciation to His Excellency Chuan Leekpai, Prime Minister of Thailand, for honoring us with his presence this morning. We would like to express our gratitude to the Government and the people of Thailand for their warm hospitality, which has made possible the holding of this first Annual Meeting of the new millennium in Chiang Mai, a graceful city with a rich culture, known as the "Rose of the North." Special thanks are due to the Governor of Chiang Mai, the Mayor of Chiang Mai City, and the Thai Organizing Committee for their tireless endeavors that have made this gathering possible.

I would like, on behalf of all our members, to bid a special welcome to the Governor for Azerbaijan, whose country has become the 58<sup>th</sup> member of ADB.

I would also like to extend a cordial welcome to representatives of our development partners: multilateral and bilateral institutions, members of the financial community, civil society, nongovernment organizations (NGOs), and our friends in the media.

I am particularly pleased that our Meeting is, for the second time, being held in Thailand. It was also here in Thailand, back in 1964, that the then Economic Commission for Asia and the Far East (ECAFE) called for the meeting of a group of experts for the establishment of ADB. As a member of the ECAFE Secretariat, I prepared the papers to be submitted for discussion at the meeting in which I took part.

I never imagined that one day I would address this distinguished gathering as President of ADB. I am honored and deeply moved to be given this responsibility.

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## Sixth ADB- OECD forum on Asian perspectives set on 3 July

The sixth forum on Asian perspectives, jointly sponsored by the Asian Development Bank (ADB)-Organisation for Economic Co-operation and Development (OECD), will be held in Paris on 3 July.

Since 1995, the International Forum on Asian Perspectives has met each year in Paris to discuss emerging issues in Asian economic affairs. The Forum is unique in providing a platform for a very wide range of

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This Annual Meeting in Chiang Mai is also symbolic of the recovery of Asian economies from the recent financial crisis, which first hit this country in 1997. I would like to congratulate the Government of Thailand in leading the country to a strong recovery. I am pleased that ADB, together with other development partners, was able to play its part in cooperating with the country in its recovery efforts.

### Asia's recovery

**T**he Asian recovery has turned out to be more robust than expected. The five most crisis-affected countries staged a remarkable turnaround by growing at an average of 6.4 percent in 1999 following a decline of 7.7 percent in 1998. With overall growth of above 6 percent in 1999, Asia's developing economies have once again become major contributors to global growth. The speed and strength of the recovery testify to the fundamental strengths of Asian economies, the resilience of their peoples, and the determination of policymakers to reform.

But this recovery and improved overall performance in 1999 must not blur the lessons of the past three years. Asia must not revert to business as usual, taking the crisis as simply a short-term aberration. While we forecast for the next two years that the region's growth momentum will be maintained, its sustainability is greatly dependent on a commitment to persevere with structural reforms. The weaknesses in the corporate and financial sectors and in governance structures that were revealed during the crisis need to be speedily addressed. ADB stands ready to help its developing member countries (DMCs) accelerate and complete the reforms. As always, we will work with member countries in tailoring reform packages to suit their individual needs and circumstances.

### The challenges facing the region

**A**t the beginning of this new millennium, the Asian and Pacific region faces many critical challenges. Despite significant progress,



ADB President Tadao Chino

the region continues to be afflicted by unacceptable levels of deprivation, illiteracy, child malnutrition, gender disparity, and environmental degradation. Even today, nearly 30 percent of Asians have no access to safe drinking water. Nearly 70 percent of Asians have no access to sanitation. Almost 50 percent of adults in South Asia are illiterate. Close to 900 million people in the region still live in poverty. The overarching goal for Asia and the Pacific and for ADB should therefore be to reduce poverty. We recognize that reducing poverty is a multidimensional challenge.

The first challenge is that of attaining pro-poor, sustainable economic growth. Pro-poor, sustainable growth creates opportunities and lifts people out of poverty. Growth must be inclusive because it is important not only to reduce poverty levels, but also to maintain social stability and cohesion.

The second challenge is social development. Growth is necessary but not sufficient for poverty reduction. For example, if poor people have no access to basic education, how can they take advantage of job and income opportunities created by economic growth? If there are gender discrimination and other forms of social exclusion, how can discriminated and excluded people take advantage of expanded economic activities and share the benefits of economic growth? Social development, therefore, should accompany economic growth in order to reduce poverty effectively. Social development is also indispensable to prevent people—

falling back into poverty. This is as important as pulling them out of poverty. The Asian crisis has shown how quickly poverty can recapture those who had only recently escaped it.

The third challenge is governance. Good governance benefits all, particularly the poor who are the least capable of coping with the consequences of poor governance. Sound, well-managed, well-governed economies foster growth and equity. Accountability, participation, predictability, and transparency are essential to encourage private investments as well as to reduce corruption.

The fourth challenge is globalization. Globalization presents developing economies with enormous opportunities, but it also poses risks that have to be managed. Globalization helps developing economies by providing access to foreign markets. It also facilitates inflows of capital as well as the transfer of technological and managerial know-how. This creates employment and raises productivity. At the same time, however, globalization can generate social and economic stresses as well as financial volatility. These may exact a heavy toll on developing economies, particularly when there exist vulnerabilities in policies and institutional capacities.

The fifth challenge is how to ensure that technology, including information technology, will not widen the gap between the haves and the have-nots, both globally and within each country. Instead, we must use them in our fight against poverty.



ADB President Chino with (left to right) His Excellency Chuan Leekpai, Prime Minister of the Kingdom of Thailand; the Honorable Tarrin Nimmanahaeminda, Chairman of the ADB Board of Governors and Governor for Thailand; and Bindu N. Lohani, ADB Secretary.

Medical science, for example, can be used to produce lifestyle drugs, but more importantly, it can also be used to develop drugs that have wide benefits to all, particularly the poor, in the fight against communicable diseases, such as malaria, tuberculosis, and HIV/AIDS.

The sixth challenge is how to ensure productivity increase in the real sectors, which is the basis of growth and poverty reduction in many DMCs. For example, the majority of the region's poor still live in the rural areas, and depend on agriculture for their food security and income. However, investments in rural areas are generally inadequate, whether for agriculture, energy, telecommunications, transport, education, or health. Many rural poor have no access to electricity and only limited access to primary and secondary education. Before people can make use of information technology, they must have access to electricity, and should be able to read and write. The challenge of improving productivity requires a wide range of efforts by both public and private sectors.

Last, but not least, there is the challenge of environmental degradation. Poverty is both a contributor to, and a major consequence of, environmental degradation. The challenge is to understand the nexus between poverty reduction and environmental protection. The problem of water pollution and shortages, highlighted in ADB's latest *Annual*

*Report*, is part of the broader challenge of environmental degradation, which hurts the poor the most.

#### From vision to action: responding to the challenges

Your excellencies, ladies, and gentlemen, the challenges I have enumerated can all be summarized in one supreme challenge: the challenge of poverty reduction. Poverty in a world as knowledgeable and as resourceful as ours is unacceptable, totally unacceptable. Poverty, however, is not immutable; public policy and action can and must eliminate poverty. This is what development is all about, this is what ADB is all about, and this is what we, all together, are all about. ADB has resolved to confront the challenge squarely and is taking an integrated approach to fight poverty.

How is ADB responding to these challenges?

First, through the implementation of our Poverty Reduction Strategy. Because Asia is home to two thirds of the world's poor, the fight against global poverty must be won here in this region. Realizing this, we have set poverty reduction as ADB's overarching goal. In November last year, we adopted a strategy to achieve that goal. How do we go about it? For each country, we are now conducting a country-specific poverty analysis in full consultation with

the government, stakeholders, and other aid agencies. Poverty analysis provides a basis for discussions at a high-level forum for each country, which will lead to a country operational strategy, and then to a partnership agreement for poverty reduction with each DMC. Partnership agreements clearly describe country-specific targets and the measures to achieve these targets. We have already signed partnership agreements with Bangladesh and Mongolia. All such partnership agreements with our DMCs will be completed by the end of 2001. Thus, ladies and gentlemen, within a short period of time since the adoption of the strategy, ADB's activities have already been reoriented toward poverty reduction.

Second, through private sector development. The Asian experience has demonstrated that if we are to achieve the sustainable and inclusive economic growth needed to reduce poverty, a dynamic private sector is critical. Recognizing this, ADB has adopted a new strategy to refocus and energize our work for private sector development. The strategy requires us to promote private sector development by helping to put in place an enabling policy and institutional environment. We also aim to catalyze private sector investments and use our public sector operations for increasing opportunities for private sector investments. In our public sector operations, we will think private sector development. Simultaneously, in our private sector operations, we will think development impact. Regional cooperation can also make a subregion more attractive to private investors by providing wider business opportunities. ADB has been a key facilitator of regional and subregional cooperation in Asia. We will further enhance our support, particularly by promoting investments in subregional projects that provide essential means for trade and investment linkages.

Third, by moving forward social development. Social development through investments in education, health, and basic services is crucial for poverty reduction. The benefits of such investments extend far beyond humanitarian considerations. They empower people to take control of their own destinies. They provide social safety nets to those who are vulnerable, and promote social inclusion.

They create the human capital that can take advantage of the opportunities arising from globalization. We are refocusing our interventions in this area to target the poor more directly, to promote skills formation, and to establish social safety nets.

Fourth, by promoting good governance. ADB has been a forerunner in this area. As early as 1995, ADB adopted a Board-approved Governance Policy, the first among the multilateral development banks. We are supporting governance reform programs in many countries, including public administration reform, anticorruption, and law and development. Building on lessons learned, we are preparing an action plan for the future.

Fifth, by responding to globalization. Turning away from open economies is hardly the way to meet the challenge of globalization. We need to find ways to maximize the benefits of globalization while, at the same time, minimizing its risks and downside effects. The appropriate response for developing economies is to equip themselves with the institutional and organizational capacity necessary to participate effectively in global markets. What is needed in the long term includes upgrading of productivity through comprehensive efforts by governments and the private sector. Regarding global capital mobility, we recognize that liberalized capital movements have contributed to robust economic development in many developing countries. We must also recognize, however, the valid concerns over volatility of capital flows in emerging economies. We have already learned many lessons from the recent Asian crisis. These include the need to develop adequate regulations and supervision, to undertake structural and institutional reforms in the financial and corporate sectors, to make careful and well-sequenced policy decisions, and so on. ADB has been providing and will continue to provide our DMCs with assistance for, among others, strengthening the financial sector, developing capital markets, improving banking supervision, and regional economic monitoring.

Sixth, by applying new technologies. The need to prepare for the technological revolution, especially in information and communications, has become

increasingly important. Information technology will have a big impact on the Asian economies and ADB's operations. ADB has, for example, supported the introduction of modern telecommunications technologies to benefit poor people in remote villages. We will further explore the possibilities of using emerging technologies in our fight against poverty, for example, through improving access to education for the poor and enriching the quality of their human capital.

Seventh, by improving productivity in the real sectors. With a majority of Asia's poor living in the rural areas and depending on agriculture for their livelihoods, agricultural development is critical to poverty reduction and growth. A water policy, currently under preparation, will contribute to the efficient use of water in agriculture and other sectors, while ensuring that the poor have equitable access to water resources and services. Our new microfinance development strategy, which is being finalized, will empower the poor. The development of small and medium enterprises will be given particular emphasis. We will continue to support human resource development, institutional capacity building, and the development of necessary infrastructure, leveraging private sector investments as much as possible.

Eighth, through environmental protection. Asia suffers from serious environmental degradation. The air and water in many parts of Asia are among the most polluted in the world. Population increase and rapid urbanization continue to impose a heavy toll on the environment. ADB is preparing a new environment policy that will focus on the environmental constraints inhibiting poverty reduction. By working with communities to address local problems, we are generating global benefits. We will expand this work, and support regional and subregional initiatives for environmental cooperation.

In the context of Asia's dynamic transformation, new challenges will emerge and we must be prepared to work with all stakeholders so that we can help DMCs take advantage of opportunities, as well as minimize risks that may be brought up by these challenges. This requires ADB to continuously adapt to emerging

situations. We welcome the challenge of change. We are confident of our ability to reorient ourselves, with your support, to better serve our DMCs.

Let me mention some important initiatives that we are undertaking. First, we are strengthening our resident missions. As you may know, in the past, we did not have a resident mission in many of our DMCs. To move closer to our DMCs and work more extensively in the field and to have better coordination and cooperation with other donor agencies, resident missions are being strengthened and their role enlarged. They will henceforth be the primary operational interface with our DMCs and all other stakeholders. New resident missions are being established in several DMCs: our Bangkok, Beijing, and Vientiane offices will open soon.

Second, ADB has been strengthening its cooperation with all stakeholders, including various multilateral and bilateral institutions, in order to meet the new challenges our DMCs are facing. We are promoting a participatory approach through undertaking stakeholder consultations in conducting poverty analyses, in preparing country operational strategies, and in formulating partnership agreements for poverty reduction. With nearly two thirds of the world's poor in the region, our antipov-erty challenge in Asia demands the fullest possible participation of many aid agencies, as well as close coordination among them. We strongly support continued partnership with the World Bank, International Monetary Fund, and other multilateral and bilateral aid agencies. It brings different experiences and perspectives, encourages innovation, and creates synergy in our efforts to address the needs of Asia's poor.

ADB is responding effectively to the challenges facing Asia. We have already undertaken several major initiatives, but we must also have a long-term perspective and operational framework. We have, therefore, begun work on a long-term strategic framework for ADB operations, which will ensure that all our activities are integrated and directed toward our overarching goal of reducing poverty. We will complete this framework by the end of this year in full partnership with you and other

stakeholders in both developing and developed countries. We welcome your valuable inputs in our long-term strategic framework.

### Empowering ADB

Your excellencies, ladies, and gentlemen, in order to accomplish its challenging mission, ADB needs the continued guidance and support of all shareholders. To win the battle against poverty, ADB needs to be empowered through provision of adequate resources in support of both the Asian Development Fund (ADF) operations and its ordinary capital resources operations.

ADF is the most important resource of ADB for assisting the poorer member countries, particularly in catalyzing and accelerating poverty reduction. With a spirit of strengthened partnership between shareholders and ADB, I am confident that we can count on continued donors' support, with which the ongoing ADF VIII negotiations will be completed successfully. This will enable us to move more effectively from vision to action in implementing our poverty reduction strategy in our poorest DMCs.

Another excellent initiative to support our poverty reduction efforts is the proposed Japan Fund for Poverty Reduction that will shortly be considered by the Board of Directors. We would indeed be very pleased if this led to similar contributions from other donors.

ADB has demonstrated sound financial stewardship of its resources and has recently taken important steps to maintain its stand-alone financial strength. We have always benefited from the consistent support of our shareholders in meeting our resource needs, which has enabled ADB to continue performing its crucial role. To face the challenges discussed earlier, the Board of Directors has recommended to the Governors that a study of ADB's resource requirements be initiated. This will provide useful information for considering our future resource requirements.

### Conclusion: working together to realize our vision

Your excellencies, ladies, and gentlemen, every human being on this planet should live with dignity and hope. I would like to tell you, in conclusion, about my recent experience in Bangladesh where I met hundreds of the poorest people of Asia. What struck me most, however, was not their poverty but the richness of their culture, and their dignity and hope. The ADB-assisted Slum Improvement Program has changed the Malshapara slum of Sirajgonj into an attractive village. Ten additional hand tubewells are now providing sufficient freshwater for 700 people. Fifty sanitary latrines, a 450-meter footpath, a 300-meter drain, and four street lights have now changed a muddy, dark slum into a bright, clean village. Primary health care, a skills development program and income-generating activities have empowered women and strengthened their self-confidence. At the villagers' meeting, I was welcomed by lovely children, in brand-new beautiful clothes, which were handmade by their mothers using tailoring skills recently acquired under the skills development program. These children sang for us "We shall overcome." The mothers' faces were shining, the children's faces were shining, with dignity and hope. I found myself singing together with the children.

Your excellencies, ladies, and gentlemen, I am confident that, under your guidance, we have set ourselves the right goal. We must dedicate ourselves to achieving our vision: a region free of poverty. This is no utopian dream. The Asian and Pacific region can be free of poverty. This will lead to the world free of poverty. To achieve our goal, we must move strongly and swiftly from vision to action. We have the road map, the resources, and the will. Let us go together on the road from poverty to prosperity. If the world is to halve poverty by 2015, Asia and the Pacific must be the spearhead. Asia and the Pacific points the way forward. And ADB, with the wholehearted support of all its members, will be at the very center of the process. Together, we can do it! □

## Sixth ADB-OECD Forum on Asian perspectives

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participation—from business to academia, policymakers, and journalists—in a discussion that is open, frank, and frequently revealing. The objective, however, goes beyond the provision of an arena for these interest groups to meet and exchange ideas; the discussions result in policy conclusions and recommendations for action that influence the relationship between OECD members and the non-OECD members of ADB.

The Forum, to be opened by French Finance Minister Laurent Fabius, will concentrate on mobilizing resources for development in the wake of the Asian financial crisis. Though it may take years for income levels to rise in response to healthy rates of gross domestic product growth, the onset of a crisis can undo improvements in a very short period.

To relaunch fully the growth and prosperity process, financial resources have to be released to relieve poverty and create the bases for improved living conditions, education and health.

The approach includes the traditional sources of development assistance, but also must take into account domestic resource mobilization, foreign saving, and private flows.

The Forum will provide an opportunity to review the appropriate mix of all these sources of funding in the Asian context and will seek to identify successful experience in each area. The conclusions and policy recommendations, as has been the case with earlier editions of the Forum, will be produced in a book, jointly published by ADB and the OECD Development Centre.

Access to the forum is available on demand up to the limit of available places. □

# ADB's new strategy to promote private sector development

The Asian Development Bank (ADB) on 30 March 2000 unveiled a new private sector development strategy aimed at strengthening the role of the private sector as the engine of growth in Asia. This is an important challenge to ADB since long-term, rapid growth is necessary to sustain poverty reduction—ADB's overarching goal as a development institution.

Growth creates jobs that use the poor's main asset—labor. Growth also increases the tax base that enables government, acting on good governance principles, to provide basic social services to the poor.

The strategy consists of a systematic and coherent framework that will guide ADB's activities to promote private sector development across the region. It has three thrusts.

- **Creating enabling conditions.** Through its public sector operations, ADB will help member governments establish the right conditions for business to flourish and create an environment conducive to pro-poor growth. It will encourage reforms that spur entrepreneurial development and stimulate domestic and foreign private investment. To enable the private sector to play a larger role in the economy, ADB will help shift the government's role from owner-producer to facilitator-regulator of private sector activities, ensuring markets work while protecting public interest. This will free public resources for use in basic education, health services, and social safety nets. In many developing member countries, growth and ultimately, poverty reduction depend on such a shift.
- **Generating business opportunities.** ADB will consciously and

systematically scrutinize its public sector activities to ensure that its public sector investments do not "crowd out" the private sector, and that it takes all possible opportunities to "crowd private sector participation. Thus, ADB will take steps to ensure that, in its public sector projects, business opportunities will be generated for the private sector. For example, a state road system financed by ADB can be required to concession its operation and maintenance to a private firm.

- **Catalyzing private investments.** Through its private sector operations, ADB will continue to provide direct financial assistance to private sector projects that have clear development impacts and/or demonstration effects. The main focus is on two sectors: infrastructure and finance. ADB's participation in a project is usually small but it leverages a large amount of funds from commercial sources for the project. ADB's presence is seen as a source of comfort by other lenders and investors. To facilitate mobilization of commercial debt finance, ADB will intensify the use of cofinancing and guarantee instruments for mitigation of perceived risks.

In addition, ADB will support investment funds that will enable it to reach out to small- and medium-sized enterprises, small infrastructure projects, technology companies, and other small projects that may not be cost-effective to assist directly.

The three strategic thrusts of the private sector development strategy will be focused primarily on four areas of operations.

- **Governance in the public and private sectors.** Effective governance is essential for

encouraging private sector practices in ADB's existing and potential private sector investee companies and through investment funds it supports.

- **Financial intermediation.** Well-functioning financial systems are critical to private sector development. ADB will continue support for policy reform and capacity building to strengthen financial systems, and will focus on enhancing regulation and supervision, develop sound banking systems, and deepen and broaden other securities markets.
- **Public-private partnerships.** Public-private partnerships can balance development goals with commercial interests. ADB will support the development of workable public-private partnerships to involve the private sector in areas such as energy, water, wastewater treatment, transport, telecommunications, and where practicable, the social sectors.
- **Regional and subregional cooperation.** Regional and subregional cooperation has emerged as an increasingly important strategy for development in Asia. Such cooperation offers larger markets that allow production economies of scale and efficient division of labor. ADB will assist in the preparation, financing, and risk management of subregional projects that involve private sector participation.

In a joint statement, Christine Wallich, Head, ADB's Private Sector Group, and Shoji Nishimoto, Director, Strategy and Policy Department, hailed the new strategy as "the instrument by which ADB will harness the private sector's contribution to its vision of an Asian and Pacific region free of poverty." □

# ADB agrees to set up Japan Fund for Poverty Reduction

The Asian Development Bank (ADB) approved on 23 May 2000 the establishment of a Japan Fund for Poverty Reduction to support ADB's fight against poverty.

The Fund will be established with a contribution from Japan of yen 10 billion (approximately US\$90 million). It will provide ADB's developing member countries (DMCs) with grants to support innovative poverty reduction and related social development activities that can add substantive value to ADB-financed projects.

The proposal of the Fund was earlier announced by Japanese Finance Minister Kiichi Miyazawa at the 33<sup>rd</sup> Annual Meeting of ADB's Board of Governors, held in Chiang Mai, Thailand from 6 to 8 May. "This Fund aims to provide grants in relation to the ADB's loans to reduce poverty, and also to support capacity-building efforts. By drawing upon this Fund, we hope that the ADB's loans for poverty reduction will become even more effective," Mr. Miyazawa said. The objectives of the fund are to

- support well-targeted poverty reduction and social development activities that have a direct impact

on the poor and on socially or economically excluded or vulnerable groups;

- stimulate the self-help capacities of the poor;
- stimulate widespread stakeholder participation at the community level; and
- provide a systematic impact on DMCs' operations and approaches toward sustainable poverty reduction.

Typical activities to be supported by the Fund include the following:

- providing small-scale basic economic and social services to the poor;
- supporting social development fund activities that channel funding to small-scale projects targeted to benefit the poor;
- supporting nongovernment organization activities that promote poverty reduction and social development; and
- capacity building for local governments and community-based organizations to enhance effectiveness and sustainability of DMCs' poverty reduction efforts. ▢

## ADB policy papers approved in 1999

### Approved Papers

- Policy for the Health Sector 25 February
- The Resource Position of the Bank 9 March
- Establishment of a New Facility in the Existing Japan Special Fund to Assist Currency Crisis-Affected Member Countries 23 March
- Review of the Bank's Income Outlook and Allocation of Net Income 31 March
- Review of the Bank's Guarantee Operations 8 October
- Fighting Poverty in Asia and the Pacific: The Poverty Reduction Strategy of the Asian Development Bank 9 November
- A Review of OCR Loan Charges 3 December
- A Review of the Bank's Program Lending Policies 13 December

### Working Papers

- ADF VII: Progress Report 31 March
- Resident Mission Policy 1 December

## ADB opens resident missions in Thailand and Lao PDR

The Asian Development Bank (ADB) on 19 April 2000 announced that it will establish resident missions in Bangkok, Thailand, and Vientiane, Lao People's Democratic Republic (Lao PDR).

The new office in Bangkok, which will be opened later in the year, will increase the effectiveness of ADB's operations in Thailand as well as support ADB's program of economic cooperation in the Greater Mekong Subregion. The new mission will also "enhance the participa-

tory process through closer interaction with the government, nongovernment organizations, the private sector, academia, and other stakeholders in designing and implementing the program of assistance.

The establishment of a resident mission in Lao PDR is expected to significantly enhance the effectiveness of ADB's operations in Lao PDR. "Establishing a resident office in Vientiane will open a new chapter in our long and productive development partnership," said President Chino during the signing ceremony for the agreement.

ADB has extended development assistance to Lao PDR since 1970. As of December 1999, cumulative lending to Lao PDR consisted of 46 loans amounting to US\$827 million. In addition, technical assistance grants for 171 projects amounting to US\$76.5 million had been provided.

In the 1970s and 1980s, ADB assistance was focused mainly on economic growth projects involving infrastructure development in the transport and energy sectors. ▢

# Asia's water situation: "A human tragedy" —ADB *Annual Report 1999*

Some 830 million people in developing Asia and the Pacific do not have safe drinking water. More than 2 billion lack sanitation facilities. The acute shortages cause high rates of waterborne disease and death. The Asian Development Bank in its *Annual Report 1999* calls the water and sanitation situation in Asia and the Pacific "a major human tragedy." Meeting these needs should be one of the highest priorities for governments concerned, it urges.

According to the Report's theme chapter, "Water in the 21<sup>st</sup> Century," freshwater must be used much more efficiently. Agriculture, for example, consumes a massive 70 percent of global freshwater. Greater public awareness is needed to help create the policies, strategies, and incentives to establish integrated water resource management on a global basis, stresses the Report.

It notes a yawning gap between demand and supply. For instance, in 1999, ADB lent US\$1.24 billion, or a quarter of its lending, for water-related operations in the region. Yet the world

needs US\$70 billion a year just to bridge the gaps in water supply and sanitation services over the next 10 years, says the Report.

Although water pollution is the region's most serious environmental problem, water scarcity will soon affect food security in some parts of the region, which could lead to a heightening of tensions between countries sharing the water resources of international rivers. Many Asian cities, where 56 percent of the population will live by 2025, are ill equipped to provide their growing populations the safe water and sanitation they need. Up to one in four in the region lacks formal sanitation.

The poor are most prone to diseases caused by unsafe drinking water and inadequate sanitation. Almost 250 million cases of waterborne diseases and 10 million deaths are reported worldwide each year. Ironically, the poor, who can least afford it, spend a higher proportion of their income than others on potable water.

ADB's water projects promote integrated water resource management. They build on country-specific analyses of water resource needs, constraints, and potentials. The first such analysis was made in Sri Lanka in 1993 and led to a national water sector profile and an action plan for reform. Similar activity is being supported

in Lao People's Democratic Republic, Pakistan, and Viet Nam. A new generation of water projects has emerged, and these focus on supply and demand management, reflecting a shift away from the traditional sectoral approach toward a more integrated and comprehensive approach.

ADB also encourages private sector water initiatives through direct financial support. One significant recent example is the Maynilad Water Services Project to bring water and sewage facilities to 90,000 poor families in Metro Manila, Philippines. Another is the Chengdu Water Supply Project in Sichuan Province, People's Republic of China.

At the policy level, ADB helps governments develop, in a participatory manner, master plans for managing critical natural resources. ADB's water projects aim for social welfare, environmental integrity, and economic productivity. They also aim for more participation among stakeholders, particularly women, nongovernment organizations, and the private sector. These approaches are needed as, according to the World Water Council, the global goal is to provide at least 95 percent of humans with safe water and sanitation by 2025. □



# ADB's new investments to benefit the poor

In a bid to combat Asia's rampant poverty, the Asian Development Bank (ADB) has recently adopted a policy to make poverty reduction the cornerstone of its operational activities.

According to the *Asian Development Outlook (ADO) 2000*, an annual publication of ADB that forecasts economic trends in the region, other strategic concerns such as human resource development, sound environmental management, improvement of women's status and economic growth in its developing member countries will also be earnestly pursued but in such a way as to maximize their contribution to poverty reduction, where possible.

To this end, ADB has set up a new poverty reduction unit to help carry out this new mandate.

The three pillars of ADB's new poverty reduction strategy are fostering pro-poor and sustainable economic growth, social development, and encouraging good governance. The new task for ADB is to translate the broad thrust of the poverty reduction strategy into comprehensive and analytically sound country-specific action plans.

These plans will prioritize the three strategic pillars according to country circumstances, ADB's cross-country experience in poverty reduction, and the changing global environment facing the developing member countries (DMCs).

To achieve greater success in poverty reduction, the ADO points out that future ADB investments will give priority to projects impacting directly on the poor.

ADB will also invest more to provide the poor with access to essential services, including electricity, and water supply and sanitation. Access to basic education and primary health care will increase the poor's chance of earning income. Providing social safety nets will also reduce the indebtedness that entraps many poor in a vicious cycle.



A critical element of ADB's poverty reduction strategy is governance. Good governance, as well as sound macroeconomic management, is essential for participatory, pro-poor policies. It ensures the transparent use of public funds, encourages growth of the private sector, promotes effective delivery of public services, and helps establish the rule of law.

Actions on governance must proceed at two levels. At the national level, public administration and expenditure management will be strengthened to promote pro-poor growth and social development. At the same time, responsibility for provision of public services will be devolved to the lowest appropriate level of government.

In implementing its poverty reduction strategy, ADB will work closely with member governments, nongovernment organizations, members of civil society, and other funding agencies. ADB will also undertake poverty analyses of individual countries to ascertain the most effective policies and institutions to fight poverty. These analyses will be discussed at high-level forums where governments, community-based organizations, the private sector, and other funding agencies will be represented.

These forums will produce country operational strategies that will form the basis for programs. These programs, in turn, will be implemented through partnership agreements, which will include mechanisms for reviewing performance and which will link performance to the allocation of funds.

Finally, ADB will help introduce effective poverty monitoring systems in its DMCs. In monitoring progress toward the agreed targets, ADB will also assist borrowing governments in refining their respective policies and programs for poverty reduction. In this way, ADB will become more accountable for its own actions. □

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# Asia continues to be world's fastest growing region

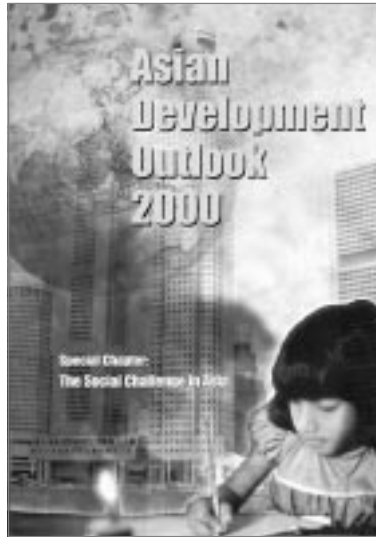
Fueled by strong domestic demand and favorable global economic conditions, Asia's economy will continue to be the fastest growing in the world, registering an expected economic growth rate of 6.2 percent in 2000.

This is the view of the *Asian Development Outlook (ADO) 2000*, an annual publication of the Asian Development Bank (ADB) that provides a review of economic prospects in the region, which was launched on 26 April at Asia House in Copenhagen, Denmark. This launch was arranged by the Nordic Institute for Asian Studies.

Asia's economic recovery was robust throughout 1999, showing a gross domestic product (GDP) growth rate of 6.2 percent. The transformation of Asia from the financial crisis two years ago to the world's fastest growing region has exceeded all expectations. In terms of industrial production, it took Asia less than two years to return to the precrisis level of output.

According to the ADO, the faster-than-expected recovery in the first half of 1999 in most of the crisis-affected countries was primarily due to a pickup in global demand for electronics. This sparked an export boom in the region, which improved consumer sentiment and the ensuing spending recovery. In the second half of 1999, the recovery was fueled by expansionary policies and implementation of structural reforms, which further stimulated domestic demand in the region. The implementation of new policy measures to address corporate and financial sector problems have helped to contain the level of non-performing loans.

The improvement in economic performance, combined with the return of portfolio capital to the region, resulted in a surge in the equity market prices by 25.4 percent (in dollar terms) during 1999. This was significantly above the 6.7 percent and 4.5 percent recorded in the US and world stock markets,



respectively. As a result, confidence in domestic markets was boosted and consumption spending stimulated.

On average, in the newly industrialized economies (NIEs) and Southeast Asia, signs of consumer confidence have surfaced. As a result of the better economic picture and booming equity markets, consumers are starting to spend after two years of belt tightening.

The ADO points out that the Republic of Korea has led the recovery among the crisis-affected countries, with economic growth of 10.7 percent in 1999. Stock rebuilding, a boost in private consumption and investment demand, and a rise in exports have boosted Korean production to above precrisis levels.

Despite the overall revival of the NIEs, economic performance varied among countries. After a severe recession in 1998, the economy of Hong Kong, China posted growth of 2.9 percent in 1999. This recovery was mainly sustained by accelerated growth in government spending and increased exports of services, combined with decreased imports of goods. In the Republic of Korea, real GDP grew by 10.7 percent in 1999 after declining by 6.7 percent the previous year. Several large fiscal stimulus packages, combined with foreign capital inflows and more accommodating monetary policy, helped renew domestic

demand in the Republic of Korea. Along with more expansionary monetary and fiscal policy, electronics exports to the US to meet Year 2000 (Y2K) standards provided a major boost to growth in Singapore. Taipei, China experienced a 15-year low GDP growth rate of 4.6 percent in 1998, although it edged up to 5.7 percent the next year. Some additional growth resulted from a surge in exports of electronic, information and communication products, which emanated from an expansion of the information technology (IT) sector in industrial countries and Y2K-compliance requirements.

Despite the Asian financial crisis, the People's Republic of China maintained a robust growth rate of 7.8 percent in 1998, according to the ADO. Capital controls and a fixed exchange rate insulated the economy from the financial turmoil that plagued other countries. In addition, it adopted an expansionary fiscal policy in the form of public spending on infrastructure projects. As the stimulus from the fiscal package began to taper off and export growth moderated, GDP growth slowed to 7.1 percent in 1999. Growth in 2000 is forecast at 6.5 percent due to a slowdown in industrial and construction activity.

South Asia continues to be a strong performer, the ADO says. Growth in 1998 and 1999 was 6.2 and 5.5 percent, respectively. In India, the industrial sector is showing signs of a pickup after three years of sluggish performance. Combined with a growth in exports and a modest increase in agriculture sector output, GDP growth was 5.9 percent in 1999. Pakistan's continued political instability, weak agriculture performance, and macroeconomic imbalances constrained growth to 3.9 percent in 1999. In Bangladesh, severe floods hampered agriculture and manufacturing sector activity, which led to a decline in GDP growth to 4.4 percent in 1999. Declining industrial output slowed

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# ADB lends US\$5 billion in 1999; 40 percent on poverty reduction



## Asia continues to be world's fastest growing region

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growth in Sri Lanka to 4.2 percent in 1999 from 4.7 percent in 1998.

The 2000 growth forecast for South-east Asia is 4.6 percent. The positive trend is likely to be supported by the favorable global environment and boom in the electronics industry. Political stability will be a key factor in determining the future course of economic reforms in the region and the prospects for converging to per capita income levels attained in the NIEs and Southeast Asia. The opening of domestic capital markets and integration with international financial markets will increase net capital inflows and improve the access to international financial markets. These synergies will alleviate the negative effects of chronic fiscal deficits that usually crowd out private investments.

The economies of Central Asia grew by 2.8 percent in 1999, from the previous year's 0.8 percent. Future economic performance in the Central Asian republics will depend on Russia's economic recovery and improvement of international commodity prices. □

The Asian Development Bank (ADB) approved 66 loans in 1999 totaling nearly US\$5 billion for 52 projects, of which about 40 percent were focused on poverty reduction, according to ADB's *Annual Report 1999*, released on 19 April. Last November, ADB approved a poverty reduction strategy that elevates poverty reduction as the overarching goal of its operations.

Of the total lending in 1999, concessional loans from the Asian Development Fund (ADF) to countries with low per capita gross national product and limited debt repayment capacity rose 8 percent to over US\$1 billion. Loans from ADF made up 22 percent of total lending while the rest came from ADB's ordinary capital resources (OCR). OCR lending in 1999 totaled US\$3.9 billion, which included four loans to the private sector without government guarantee amounting to US\$146 million.

In addition to lending, ADB made one equity investment of US\$7 million in the private sector, and provided technical assistance grants of US\$172.9 million, an increase of 6.6 percent over 1998.

The People's Republic of China received the largest share of lending (eight loans totaling US\$1.2 billion for six projects) and technical assistance (28 grants for nearly US\$20 million) in 1999. Other top borrowers were Indonesia (US\$1.0 billion), India (US\$625.0 million), Pakistan (US\$402.8 million), Thailand (US\$363.8 million), Bangladesh (US\$332.0 million), Viet Nam (US\$195.0 million), Sri Lanka (US\$183.8 million), Papua New Guinea (US\$108.8 million), Cambodia (US\$88.0 million), and Philippines (US\$88.0 million).

By sector, social infrastructure received the highest share of total lending (28 percent), while the largest share of technical assistance (21 percent) went to agriculture and natural resources.

To augment the resources available to its members, ADB arranged cofinancing amounting to US\$3 billion for 28 projects

in 1999. This means that for every US dollar lent by ADB in 1999, 61 cents was mobilized from official and commercial sources.

In 1999, ADB continued to extend financial assistance to countries hit by the financial crisis. It provided nearly US\$100 million in grants from its newly created Asian Currency Crisis Support Facility (ACCSF) in the form of technical assistance and interest payment assistance to the countries worst hit by the crisis. ACCSF is funded entirely by the Government of Japan but administered by ADB. The Facility was set up as part of Japan's financial assistance under the New Miyazawa Initiative to countries most affected by the financial crisis. The ACCSF provides interest payment assistance, technical assistance, and guarantees.

Of the total ACCSF approvals, US\$89 million was allotted for interest payment assistance for the Health and Nutrition Sector Development Program and the Community and Local Government Support Sector Development Program, both in Indonesia. These programs are aimed at alleviating the adverse financial conditions faced by the country and effectively reducing the interest cost for funding critical social safety nets during the period of economic difficulties.

About US\$10.5 million of the ACCSF went to 11 technical assistance projects, including eight in Indonesia (US\$5.8 million), one in Thailand (US\$3 million), and two in the Philippines (US\$1.7 million).

Over 50 percent of the ACCSF earmarked for technical assistance went to social infrastructure projects, 29 percent for finance, 11 percent for agriculture and natural resources, and 9 percent for other sectors.

Since ADB started operations in 1966, its cumulative lending as of the end of 1999 has amounted to US\$82 billion in public and private sector loans involving 1,550 projects in 38 developing member countries. Nearly US\$2 billion have been provided in technical assistance grants and US\$600 million have gone to equity investments and underwritings. □

# ERO fields 170 missions to promote ADB interests

The European Representative Office's (ERO) primary responsibility is to enhance public awareness of and support for the Asian Development Bank (ADB) in its European member countries. ERO's subsidiary responsibilities are to build relations with multilateral institutions, mobilize resources, act as an information conduit, and facilitate outreach. ERO's interest groups include academic institutions, business associations, chambers of commerce, employee and employer associations, export and trade promotion organizations, financial associations and institutions, government agencies, non-government organizations (NGOs), research organizations, and the media.

Since ERO was officially opened on 11 December 1996, ERO staff have fielded about 170 missions to European member countries of ADB, of which about 38 percent were for country contact and consultation; about 55 percent for conferences, seminars, and other meetings; and about 7 percent for information and public relations. These figures exclude work carried out in Frankfurt am Main, where ERO is located.

ERO Regional Representative **Keon-Woo Lee** accompanied ADB President **Chino** during his official visits to the **United Kingdom, Italy, Norway,** and the **Netherlands** in early February. On 1 February, at a seminar on ADB's private sector operations hosted by the British Trade International and the City of London in **London**, **Lee** highlighted ERO as the initial contact point for business with ADB. On 7 February, in **Rome**, he discussed ADB's private sector operations and ERO's activities at a seminar hosted by the Italian Institute of Foreign Trade.

On 14 March, **Lee** accompanied ADB Vice-President **Myoung-Ho Shin** to **Bonn** on the occasion of the Vice-President's consultations with German

Government officials. He also attended an International Task Force Meeting on Commodity Risk Management, held at the Food and Agriculture Organization in **Rome** on 16-17 March.

**Olivier Serrat**, ERO Liaison Officer, made presentations on ADB in Europe and ADB's private sector operations at the ADB Business Opportunities Seminars held in **The Hague** on 16-17 March, **Paris** on 20-21 March, **Madrid** on 22-23 March, and **Barcelona** on 28-29 March. In each of the capitals visited, he also met with officials of the ministries of finance and discussed ERO's responsibilities and their views, concerns, and interests regarding ADB. On 12-13 March, in **Paris**, he represented ADB at the Paris Club meeting on Indonesia.

On 18 April, **Lee** accompanied ADB Vice-President **John Lintjer** to **Brussels** on the occasion of the Vice-President's consultations with Belgian Government officials and the presentation of the *Asian Development Outlook* to the European Parliament. On 26 April, he accompanied again the

Vice-President to **Copenhagen** on the occasion of his consultations with Danish Government officials and the launch of the *Asian Development Outlook* at the Asia House. On 6-7 May, **Lee** attended the 33<sup>rd</sup> Annual Meeting of ADB's Board of Governors in **Chiang Mai**, Thailand.

**Serrat** traveled to **Bonn** on 8 May to explain ADB's new poverty reduction strategy to an association of about 100 German NGOs. On 18-19 May, he was in **Lyon** to explain ADB in Europe, ADB's new poverty reduction strategy, and ADB's policy for cooperation with NGOs to an association of French NGOs from the Rhone-Alpes region, and to make presentations on ADB and ADB's private sector operations to the representatives of about 15 French banks.

On 20-21 May, **Lee** traveled to **Riga**, Latvia, to attend a meeting of the Heads of Multilateral Financial Institutions and the annual meeting of the European Bank for Reconstruction and Development. □

## An Editorial Note from the Regional Representative

Our newsletter of March 2000 contained a questionnaire aimed at improving the contents of our quarterly newsletter. The number of responses received and the suggestions you provided surpassed all expectations. We now know that our newsletter is read by almost 10,000 persons even though we only circulate 2,500 copies. More importantly, we are now keenly aware of your exact requirements, and can meet demand better. You expressed a clear preference for project and program information, and also indicated a strong interest in news of ADB's private sector activities and economic development in the Asian and Pacific region.

We shall endeavor to cover these subjects more frequently, and perhaps in greater depth, in subsequent editions. In the meantime, we would like to draw your attention to ADB's Home Page, which already offers full details of ADB's individual member country's country assistance plans and pipeline updates at [http://www.adb.org/Work/Country/Assistance\\_Plans/caps.asp](http://www.adb.org/Work/Country/Assistance_Plans/caps.asp). We are also pleased to introduce a new section detailing the missions that we field in ADB's European member countries.

Keon-Woo Lee  
Regional Representative, ERO