

ADF: Foreign Aid Makes a Difference to the Poor in Asia

ADB's concessional fund throws a lifeline to the world's poorest

By Sherry Kennedy, NARO

The words “foreign aid” have elicited increasing skepticism during the past decade. Both governments and civil societies are demanding evidence of the effectiveness of development assistance in improving the quality of life of the poor in the developing world. This skepticism may be a byproduct of the widely held perception that developed countries give too much, that developing countries—the recipients of funds—lack accountability, and that results are not evident. In such a discussion, the experience of Asia and the Pacific is pertinent because two thirds of the world’s poor live in this region. As such, the region’s largest multilateral source of concessional assis-

tance to the poor—the Asian Development Fund (ADF) of the Asian Development Bank (ADB)—is also highly relevant.

Perception Matters

Understanding perceptions can be a useful tool to decipher attitudes and dispel misconceptions toward foreign aid spending, defined as all forms of aid pledged by a donor country such as the United States (US) Government. This was illustrated in a 2001 study “Americans on Foreign Aid and World Hunger: A Study of US Public Attitudes,” conducted by The Program on International Policy Attitudes at the University of Maryland. In this study, the major-

ity of respondents thought that compared with other countries, the US was overspending on foreign aid, representing about 20% of the federal budget; in fact, the real figure spent was less than 1% of the federal budget. The same study, however, showed strong support by Americans for increased spending, far exceeding the actual cost of contributing to an international effort to cut world hunger by half.

Worldwide, international aid flows have declined throughout the 1990s. In Africa, for example, this has translated to an average decrease in real annual per capita aid from \$43 to \$30 since the early 1980s. In the past decade, only five countries (Denmark, Luxembourg, the Netherlands, Norway, and Sweden) met the United Nations’ target of spending 0.7% of GDP on aid. Ac-

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LIVELIHOOD Poor and landless families, particularly those headed by women, are targeted beneficiaries of ADF projects in Bangladesh.

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In this publication, \$ refers to US dollars.

ADF Makes a Difference

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According to ADB's recently released annual publication of development statistics, *Key Indicators of Developing Asian and Pacific Countries 2003*, aid flows (official development assistance) to ADB's developing member countries (DMCs) in Asia and the Pacific declined by 37% from 1999 to 2001, while aid flows to all developing countries decreased by only about 12% in the same period.

Some would argue that severe cuts in aid flows have contributed to the stagnation of development in many poor countries. However, other factors such as good governance, capacity building, and private sector development must also be considered in achieving sustainable aid effectiveness for growth and development in poor countries. In addition, this multifaceted development picture also incorporates current geopolitical issues that have at their root deprivation, inequity, lack of opportunity, and a sense of powerlessness—a sentiment echoed by ADB President Tadao Chino at the 36th Annual Meeting of ADB's Board of Governors in June 2003. "The events of the past two years forcefully demonstrate not only that peace is a prerequisite for development, but also that poverty reduction and development are essential for attaining peace."

The East Asian Miracle— The Story's Second Half

Despite decreasing aid flows, rapid progress in economic and social development in Asia—home to the majority of the world's poor—should give hope to those who provide assistance. In a statement delivered to the World Affairs Councils of America in 2001, Mark Malloch Brown, Administrator of the United Nations Development Programme (UNDP) cites East Asia's rapid decrease in the proportion of extremely poor (from 28% to 15% in the last 10 years) as an example that the Millennium Development Goals are attainable. They are "not some kind of unattainable Shangri-La," but they have in fact "already been achieved in some places."

For example, in the early 1970s, half of the entire region's population was poor, av-

erage life expectancy at birth was 48 years, and only 40% of the population was literate. Today, less than one third of the population is poor, life expectancy averages 65 years, and 70% of the adult population is literate. Despite an increase in population from 1.8 billion to 3.0 billion, the number of poor people in the region has fallen by roughly 100 million. Developing countries have led these advances with significant and sustained support from ADB, with the poorest countries receiving assistance through the ADF.

Although the region as a whole has seen strong social and economic growth during this period, disparate growth, high population density, economic crises, natural disasters, and environmental degradation continue to present challenges in light of declining resources. Asia and the Pacific contain 900 million poor people, of these about 500 million live in absolute poverty (less than \$1 per day)—the largest group of poor people in the world. The next larg-

"Genuine progress in the fight against poverty can and is being made—any real chance of completing the victory will depend on these reforms and initiatives being supplemented by good old-fashioned aid."

**— Mark Malloch Brown
UNDP Administrator**

est concentration of the poor lives in sub-Saharan Africa (250 million), while the remaining 200 million live in the rest of the developing regions combined.

ADF: Providing Hope to the World's Poorest

The ADF has given hope to many of the region's poorest countries. Established in 1973, the ADF is designed to provide loans on concessional terms to DMCs with low per capita gross national product and limited debt-repayment capacity. For project loans, the terms are a 32-year maturity, including an 8-year grace period, 1% interest charge during the grace period and 1.5% during the amortization period, and equal amortization. For quick-disbursing program loans, the terms are a 24-year maturity, in-



BASIC INFRASTRUCTURE An ADF project helps improve the urban environment in Ho Chi Minh City, Viet Nam

cluding an 8-year grace period, 1% interest charge during the grace period and 1.5% during the amortization period, and equal amortization. Initial contributions to the fund were pledged in 1973 and designated ADF I. Subsequently, ADF has been replenished seven times; therefore, the current ADF period is ADF VIII, which extends from 2001 to 2004. Twenty-eight member countries provide direct contributions to the ADF and over time, nonregional and regional members each provide about 50% of the total pledged contributions.

Reflows and ADB income also represent a growing proportion of the ADF resources. Discussion on ADF IX (2005-2008) will commence with the donors in October 2003.

Since its establishment, the ADF has financed about 25% of ADB operations. In 2003, a majority of this targeted the social, and agriculture and natural resources sectors. Loans from ordinary capital resources (OCR) have nonconcessional rates, and account for 75% of operations. Twenty-five DMCs are borrowers in ADF VIII. In the first half of 2001-2002, the major borrowers in ADF VIII were Afghanistan, Bangladesh, Pakistan, Sri Lanka, and Viet Nam. Activities supported by the ADF promote poverty reduction and improved quality of life in the poorest countries of the region. Against the backdrop of extreme poverty, the long-term vision of the ADF

emphasizes a decrease in poverty in the poorest DMCs—a major step toward self-financing, nonconcessional development assistance, and private capital flows. The ADF-financed projects include Afghanistan's \$150 million Postconflict Multisector Program, Bangladesh's \$60 million Urban Governance and Infrastructure Improvement Program, and Indonesia's \$33 million Coral Reef Rehabilitation and Management Phase II.

To fight poverty, future ADF discussions must include greater collaboration with development partners; more emphasis on country-driven strategies and activities; stronger performance measurement tools; and clearly defined targets, specifically poverty reduction, tied to the Millennium Development Goals—internationally ratified to be achieved in 2015.

However, the fight against poverty requires more than strategies and institutional practices; it also requires continued multilateral support of ADB's donor members. Aside from ongoing challenges of assisting the poorest escape from poverty amid dwindling development assistance resources, ADB is also faced with new challenges such as postconflict reconstruction in Afghanistan, for which ADB has pledged \$610 million from 2003 to 2005, mostly ADF-financed. Afghanistan, like other poor countries in the region, can develop self-sufficiency only through donor support. As UNDP Administrator Brown said in his New York address: "Genuine progress in the fight against poverty can and is being made—any real chance of completing the victory will depend on these reforms and initiatives being supplemented by good old-fashioned aid." ■

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ADF-Financed Projects

Aid in Action in Developing Countries

Afghanistan: Postconflict Multisector Program Loan (Amount: \$150 million)

Objectives and Scope

The program will promote economic recovery and growth by addressing policy and institutional constraints to the agriculture, social, transport, and energy sectors through support for market-based policies, institutional reforms, and sustainable financing. A substantial amount of the loan will be earmarked for rehabilitating the agriculture sector, building national roads, and reconstructing primary schools and other facilities. The consultative process, to be conducted in all stages of the project, including implementation, will be closely monitored by the Afghan Assistance Coordination Authority (<http://www.afghanaca.com>), and an external independent body will carry out evaluations.

For more information: <http://www.adb.org/Documents/ADBBO/LOAN/6231013.ASP>

Bangladesh: Urban Governance and Infrastructure Improvement (Sector) (Amount: \$60 million)

Objectives and Scope

The condition of urban infrastructure in Bangladesh is very poor, and services are inadequate or nonexistent—serious detractors to the communities' quality of life. In secondary towns, 30-70% of the community lives without access to sanitary facilities, and solid waste collection efficiency is well below 50%. Most urban areas have poor drainage systems and suffer from localized flooding and contamination by uncontrolled organic waste from roadside markets, slaughtering areas, and air pollution from traffic congestion.

The Project will help municipalities increase accountability in municipal management and strengthen the provision of municipal services; develop and expand

physical infrastructure and urban services to increase economic opportunities; and reduce vulnerability to environmental degradation, poverty, and natural hazards. It will also promote the active participation of women in municipal management and services, and upgrade the conditions of slum dwellers.

Consulting Services Opportunities

A total of 4,006 person-months of consulting services (59 international and 3,947 domestic) will be required.

For more information, contact Hun Kim at hunkim@adb.org or visit <http://www.adb.org/Documents/Profiles/LOAN/29041013.ASP>

Indonesia: Coral Reef Rehabilitation and Management Phase II (Amount: \$33 million)

Objectives and Scope

The coastal zone in Indonesia is a highly productive ecosystem that serves as an important base for the country's economic growth, including its livelihood, economic output, and food production. The two critical and interrelated issues of pervasive poverty in coastal communities and resource degradation are threatening the sustainable development and management of Indonesia's coastal and marine sector. The Project will finance activities in 6 districts, ranging from community-based resource management and development to institutional strengthening and project management.

Consulting Services Opportunities

A total of 553 person-months of consulting services (55 international and 498 domestic) will be required.

For information, contact Weidong Zhou at wzhou@adb.org or visit <http://www.adb.org/Documents/Profiles/LOAN/32176013.ASP>

ADF Primer

Funding for the Poor: A Measure of Success

Background

What is the Asian Development Fund?

The Asian Development Bank (ADB) is authorized by its charter to establish and administer Special Funds. The Asian Development Fund (ADF) is the oldest and largest of ADB's existing Special Funds. The total contributed ADF resources as of 31 December 2001 amounted to \$18.18 billion.

Why do members contribute to the ADF?

ADF-financed operations serve many of the economic, strategic, and humanitarian interests of contributing members and do this in a cost-effective manner. No other multilateral fund is as directly and broadly involved in the economic and social development of poor and less creditworthy countries in the Asia and Pacific region. In these countries, ADF financing is used for:

- policy support and policy reform,
- governance and capacity building for development management,
- regional cooperation,
- investments in human development, and
- production capacity and infrastructure and services.

How do donors and ADB assess the performance of the ADF?

A midterm review meeting is built into the ADF replenishment process, which usually takes place midway through the 4-year ADF cycle. For example, ADF VIII, which extended from 2001 to 2004, held its midterm review in April 2003. The meeting provides donors the opportunity to take stock of the progress made and the future challenges facing ADB and the ADF.

Another major performance assessment occurs during ADF negotiations, during which donors collectively set out detailed activities and milestones for implementation. A donors' report, which details the major initiatives to be undertaken over the replenishment period, is also produced and distributed. Lessons learned are then

integrated into future operational planning for ADF borrowers. ADB has also conducted special evaluation studies of past ADF operations. The most recent was performed in March 2003 in the Special Evaluation Study (SES) of the ADF VI-VII Operations.

How have ADF resources been allocated?

The main instrument for distributing scarce ADF resources in ADB is the performance-based allocation (PBA) system. The system, based on a formula, includes several key development variables, which are intended to support ADF-eligible countries undertaking initiatives to ensure sustainable development. Factors assessed in rating country performance in this system include:

- adoption and implementation of policy, measured in terms of poverty reduction targets;
- needs, measured by gross national product and population size;
- ability to absorb funds;
- country performance in comparison with other ADF borrowers; and
- vulnerability, such as susceptibility to natural disasters and economic shocks.

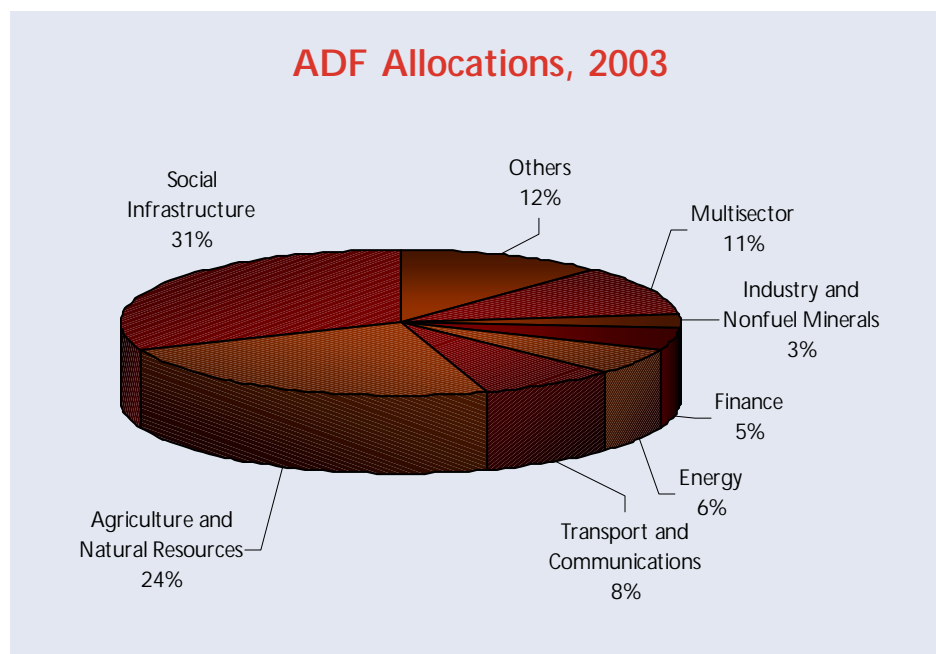
Has the ADF measured up?

In a report released by ADB's Operations Evaluation Department in March 2003, issues and questions were raised on the effectiveness of ADF, its impact on poverty reduction in the region, and areas for improved effectiveness in light of tightening ADF resources.

One of the key findings in the report is the improvement in the quality of ADF-financed projects. Out of 489 ADF-financed projects from 1975 to 2001, 53% were rated as generally successful, 38% partly successful, and 9% unsuccessful. However, the improvement in project quality over the past 10 years is most striking.

In 1975, 60% of projects were rated as successful. By the second half of the '80s and early '90s, this slipped to less than 40% of projects. The downward trend was halted and reversed as project quality steadily improved throughout the '90s. Successful projects now dominate the ADF portfolio, surpassing 70% after 1998. ■

For more information: http://www.adb.org/Documents/Periodicals/ADB_Review/03/vol35_3/measure_success_ADF.asp; and <http://www.adb.org/ADF/faq.asp>



News Briefs

President Chino Appoints Fourth ADB Vice-President



Starting 1 September, G.H.P.B. van der Linden assumed the newly created position as ADB Vice-President for Knowledge Management and Sustainable Development. Mr. van der Linden, was the former Special Advisor to the President and Director General of the East and Central Asia Department. As Vice-President, he will oversee ADB's knowledge management and sustainable development activities, which will include managing the Regional and Sustainable Development Department, Economics and Research Department, and Office of External Relations.

Mr. van der Linden will join three other Vice-Presidents on the management team under President Tadao Chino—Liquin Jin, who recently succeeded Myoung Ho Shin (Operations 1); Joseph Eichenberger (Operations 2); and John Lintjer (Finance and Administration).

New Vice-President (Operations 1) Assumes Office in August



Appointed in August, Liquin Jin succeeded Vice-President Myoung Ho Shin (Operations 1), who retired after 5 years of service. A national of the People's Republic of China (PRC), Mr. Jin will be responsible for the departments working on South Asia, Greater Mekong Subregion, and Private Sector Operations.

Mr. Jin was the PRC's Vice Minister of Finance and the Alternate Governor for the PRC at ADB, World Bank Group, and Global Environment Facility.

Managing Director General Named



ADB President Tadao Chino has appointed Young-Hoi Lee to the newly created position of Managing Director General, who will coordinate work among ADB's four Vice-Presidents, under the overall guidance of the President. Mr. Lee assumed the position in mid-September.

Prior to joining ADB, Mr. Lee was the Chairman and President of the Export-Import Bank of Korea since 2001. ■

Asian Economic Update

Asia on Track Despite Multiple Shocks, Says ADO Update

Despite the multiple shocks of Severe Acute Respiratory Syndrome (SARS), a slower-than-expected recovery in industrialized countries, and continuing high oil prices, the economies of the Asia and Pacific region are holding up well, according to the *Asian Development Outlook 2003 Update* (ADO Update) released recently by the Asian Development Bank (ADB).

The report updates the *Asian Development Outlook 2003* that was issued in April. ADO is ADB's annual flagship economic publication that analyzes and forecasts economic trends in the Asia-Pacific region.

ADO Update's projection for regional growth in 2003 remains unchanged from the April forecast of a robust 5.3%, while it revises upwards growth in 2004 to 6.1% from 5.9%.

ADO Update significantly lifts growth projections for the People's Republic of China (PRC), Kazakhstan, Pakistan, Thailand and Turkmenistan from April. On the other hand, growth projections are appreciably scaled back for the Republic of Korea and Singapore, due to weak domestic demand. Among the larger economies, ADO Update forecasts continuing high growth for India (6%) and Viet Nam (6.9%), in line with April projections.

"An improving global outlook, prudent macroeconomic management and strong growth by PRC, spurring an increase in intra-regional trade, are among the main reasons for Asia's resilient performance," says ADB Chief Economist Ifzal Ali.

The most positive factor is the continuing emergence of PRC as the engine of intra-regional trade, a trend underscored by PRC's overtaking the United States as the Republic of Korea's main export market this year. Korean exports to PRC grew by an impressive 47% in the first seven months of 2003.

The impact of the outbreak of SARS was relatively limited except in Hong Kong, China, and Singapore and most economies are rebounding strongly.

For more details, go to <http://www.adb.org/Documents/Books/ADO/2003/update/>

ADB Publications

Key Indicators 2003

On-line edition: Free of Charge

Hard copy price: \$40.00

The *Key Indicators of Developing Asian and Pacific Countries 2003* is the 34th edition of the annual statistical data book of ADB.

Its new layout features 38 regional tables of socioeconomic and financial indicators, 40 country tables (with 18 years time-series available online in Excel format), and

a special chapter on Education for Global Participation.



Asian Development Outlook 2003

With Update 2003

On-line edition: Free of Charge

Hard copy price: \$36.00

This 15th edition provides a comprehensive analysis of 41 economies in Asia and the Pacific based on ADB's in-depth knowledge of the region. It also includes a broad diagnosis of macroeconomic conditions and growth prospects for the region in 2003-2004 and a chapter on competitiveness—its nature and role in national economic development, competition of firms in an increasingly global market, and the policy environment. An update of the economic outlook, released in September, will come free with the issue of ADO 2003.



For these and other publications, contact Asian Development Bank, Publications Unit, P.O. Box 789, 0980 Manila, Philippines, Facsimile (632)636-2648; E-mail: adbpub@adb.org; or visit <http://www.adb.org/publications/>.

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NEWS FROM

NARO

The quarterly newsletter of the Asian Development Bank (ADB) North American Representative Office (NARO) aims to enhance communications between ADB and its client groups in North America. Articles in the newsletter do not necessarily reflect the official ADB view. We welcome readers' comments and suggestions.

Asian Development Bank
North American Representative Office
815 Connecticut Avenue, NW
Suite 325
Washington, DC 20006, USA

Tel: (202) 728-1500
Fax: (202) 728-1505
E-mail: naro@adb.org
Web Site: <http://www.adb.org/NARO>

Newsletter contacts:
Sherry Kennedy
Amir Tejpar

Asian Development Bank
North American Representative Office
815 Connecticut Avenue, NW
Suite 325
Washington, DC 20006
USA