



UNITED STATES

KENNETH W. DAM, Governor ad Interim

It is an honor for me to be here in Shanghai for the Thirty-Fifth Annual Meeting of the Asian Development Bank (ADB), and I extend my deepest thanks to our hosts in the People's Republic of China for their gracious arrangements.

Let me also extend my welcome to Portugal, as the newest member of ADB. We look forward to working with you, and indeed all of ADB's member countries, in addressing Asia's important development challenges and shaping the future role of ADB to realize its promise of becoming a premier development institution in the Asia and Pacific region.

United States Development Assistance Agenda

From the start of his administration, President Bush has been clear about the goal of the United States (US) to spur economic growth and reduce poverty throughout the world. President Bush believes that our work should ensure that no one is left behind and that individuals should have the opportunity to realize their full potential.

Our agenda for the multilateral development banks is guided by a focus on two overarching principles: productivity growth as the key to broad and deep gains in economic growth; and ensuring effectiveness through measuring and monitoring results.

Increasing Productivity

Poverty reduction and higher standards of living cannot occur without productivity growth: the higher the productivity, the higher the income per capita in a country or region. Productivity grows if capital (including human capital) or technology improves. In Asia, there is enormous opportunity to increase human capital through education and training, and there is enormous opportunity to adopt cutting-edge technology. Consistent rule of law, better control of corruption, and fewer obstacles to business creation also are critical. ADB financing should reflect more clearly a focus on productivity in pursuing its poverty alleviation goals. Every loan or grant should be assessed with this in mind and with a clearer vision of ADB's comparative advantage.

The private sector is also integral: we believe private sector development must feature more predominantly in ADB development efforts. Private capital flows dwarf official development assistance. The challenge is to deploy development assistance in areas where it will unleash the entrepreneurial and creative capacities of people living in the poorest countries. ADB should work with governments and enterprises to promote investment climate reforms and capacity building. It can and should do more to promote the private sector in Asia, especially small and microenterprises, which are an important source of income and employment generation.

Measurable Results

The second component of our agenda emphasizes measurable results. It would be folly to participate in any endeavor without a notion of what constitutes success. With every project that receives funding, we should be able to identify benchmarks and then vigorously track results over time.

Measurable results and policies that increase economic growth should be the hallmark of ADB operations, with progress tracked against a set of key objectives for each investment, for each country, and for ADB itself. Output should be evaluated in terms of their precise impact on living standards. We urge ADB to build on the progress to date, by developing more measurable and monitorable performance benchmarks and by ensuring that findings of project performance and evaluation reports are reflected in the implementation of projects and the design of new operations.

Solidifying the independence of ADB's Operations Evaluation Department by having it report directly to the Board of Directors, and by having its director general selected and removable only with Board approval, would be a further positive step in creating a performance-based culture at ADB.

It is important to emphasize that promoting productivity to ensure success in raising living standards, focusing on performance, and measuring results should be shared goals of all development partners. We should have consensus among lenders and borrowers supporting effective development.

Country performance is closely related to measurable results and the effective use of development assistance. The quality of the environment into which assistance flows determines future success. Sensible economic policy choices that promote sustained economic growth are at the core of development success stories. Successful countries have consistently made wise policy choices in four areas: encouraging private enterprise through market-oriented mechanisms, promoting good governance and competent public administration, opening economies to trade and investment, and building human capacity.

ADB assistance has contributed to economic successes in the past, but its effectiveness would be better if assistance were more targeted to performing countries. The performance-based system for the allocation of Asian Development Fund resources should be developed and implemented with greater rigor and consistency than has occurred so far.

The Millennium Challenge Account proposed by President Bush prior to the Financing for Development Conference is illustrative of our focus on development

results. This initiative seeks to create positive incentives by directing new US assistance to countries that demonstrate a commitment to a sound economic environment, including good governance, economic freedom, and investment in education and health. Significantly, President Bush's program is backed by a request for funding that will increase US foreign assistance by 50% by 2006.

The Role of Grants

To be effective, assistance should be delivered on appropriate financial terms, by appropriate instruments. President Bush's proposal that more funding for international development assistance be in the form of grants is another important component of our international agenda. It is clear that investments in human capital are necessary to long-term gains in productivity and poverty alleviation, but such investments do not generate direct financial returns for loan repayment. Funding for education, health care, HIV/AIDs and other diseases, nutrition, sanitary water and sewerage, and postconflict costs all fall into this category.

Scarce resources in the poorest and most highly indebted countries could be more effectively applied to key investments in their economies. Afghanistan and some Central Asian countries are clear cases where international assistance is required, but where countries are not in a position to take on substantial debt or are overburdened from past development lending. Access to grants will be extremely important to address the daunting development challenges in these and other countries. A move to more grants would be effective, affordable, and sustainable. ADB Management and shareholders should explore this issue in a timely manner.

Sustaining Growth in Asia

Asian leaders today understand that sustaining growth in the 21st century will require a change in the development strategy that proved successful in the 20th century. It will require a shift from increases in the number of workers to increases in the productivity of the workforce. It will also depend less on increases in the capital stock due to high rates of investment and more on the efficiency of financial intermediation. It will require strengthening judicial systems and enforcing contracts to redirect savings to more productive uses, rather than having resources channeled—at government direction—into large conglomerates by a protected financial system.

Equal emphasis must be placed on corporate sector financial and operational restructuring. It is encouraging that lenders in the region are starting to place higher priority on cash flow than on prior relationships. Capital markets are playing an increasingly greater—and banks an increasingly lesser—role in intermediating savings. While more progress is necessary, financial sectors are increasingly open to foreign firms, bringing fresh capital, and also technology and strong management.

Corporate governance changes are promising: more companies are paying greater attention to profits and shareholder value than to market share. We are beginning to see greater separation of ownership and management. Large conglomerates—held together less by business synergies and more by family and political ties—are diminishing; and nascent activity to direct resources to those entrepreneurs with the most productive ideas is increasing.

Role of ADB in Asia's Future

ADB must play a key role in helping countries in the region achieve economic growth and development. To do so requires strong vision and leadership, as well as willingness to adapt to evolving needs and priorities. A focus on productivity and economic growth to achieve poverty alleviation, on measuring results, and on performance-based resource allocation is critical.

Institutional accountability is also critical. Policies adopted by the Board of Directors must be incorporated into ADB's operational procedures and implemented by staff much more rapidly than in the past year. ADB's actions in response to the inspection panel's activities to date have been inadequate and have raised concerns about ADB's commitment to an independent and credible inspection function. Steps to strengthen the inspection process must be taken to enhance the credibility and effectiveness of ADB.

Attaining the stature of a premier regional development institution requires strong leadership and strategic vision on important and sensitive complex issues to sustain institutional credibility, growth, and poverty reduction in Asia. Consensus around a set of key concepts is gaining momentum: measurable results, transparency and accountability, appropriate terms of financial assistance, and engagement with countries committed to the right policies—with a guiding focus of increasing productivity rates. We believe ADB should be a proactive and creative partner in these important efforts.