Strengthened ADB Support for Regional Health Security
ABBREVIATIONS

ADB – Asian Development Bank
ADF – Asian Development Fund
CA – concessional assistance
DMC – developing member country
GMS – Greater Mekong Subregion
IDA – International Development Association
IED – Independent Evaluation Department
OCR – ordinary capital resources
RCI – regional cooperation and integration
RPG – regional public good
SARS – severe acute respiratory syndrome
SAW – Supplementary ADF Window
WHO – World Health Organization

NOTE

In this report, "$" refers to US dollars

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.
# CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>EXECUTIVE SUMMARY</td>
<td>i</td>
</tr>
<tr>
<td>I.  INTRODUCTION</td>
<td>1</td>
</tr>
<tr>
<td>II. PROPOSAL</td>
<td>1</td>
</tr>
<tr>
<td>III. RATIONALE</td>
<td>2</td>
</tr>
<tr>
<td>A. The Case for Regional Health Security</td>
<td>2</td>
</tr>
<tr>
<td>B. The Case for Grant Assistance</td>
<td>3</td>
</tr>
<tr>
<td>C. ADB’s Comparative Advantage</td>
<td>6</td>
</tr>
<tr>
<td>D. ADB’s Strategic Positioning</td>
<td>8</td>
</tr>
<tr>
<td>IV. GOVERNANCE ARRANGEMENTS</td>
<td>11</td>
</tr>
<tr>
<td>V. ALLOCATION AND ELIGIBILITY CRITERIA</td>
<td>11</td>
</tr>
<tr>
<td>VI. ESTIMATED FINANCING NEEDS FOR ASIAN DEVELOPMENT FUND</td>
<td>12</td>
</tr>
<tr>
<td>VII. ISSUES FOR ASIAN DEVELOPMENT FUND DONORS’ ENDORSEMENT</td>
<td>12</td>
</tr>
<tr>
<td>APPENDIXES</td>
<td></td>
</tr>
<tr>
<td>1. Use of Regional Set-Aside within the Asian Development Fund</td>
<td>13</td>
</tr>
<tr>
<td>2. ADB’s Support for Regional Health Security: Key Achievements</td>
<td>15</td>
</tr>
<tr>
<td>3. ADB Pipeline of Support for Regional Health Security-Related Regional Public Good Promotion</td>
<td>18</td>
</tr>
</tbody>
</table>
EXECUTIVE SUMMARY

In response to feedback received from Asian Development Fund (ADF) donors at the first meeting of the ADF 12 replenishment, this paper puts forward a strengthened case for Asian Development Bank (ADB) support for regional health security-related regional public goods (RPGs).

Proposal. ADB proposes to provide strengthened support, in the form of grant financing, for the promotion of regional health security-related RPGs in concessional assistance (CA) countries on a pilot basis for the ADF 12 period. Inferring from this, ADB proposes to, in a way, reinstate the provision of grant eligibility to cover poorer loan-eligible countries for health security-related RPGs, as agreed during ADF IX. The current proposal is different from the one presented at the first meeting of ADF 12 replenishment in the following respects: (i) it narrows the scope of RPG support to only regional health security issues; (ii) it is mainstreamed as part of the existing regional set-aside of the ADF; (iii) it is proposed as a pilot for the ADF 12 period; and (iv) it is meant to be financed through voluntary contributions. If enough additional resources are not available, the current proposal seeks concurrence of ADF donors to use the existing regional set-aside of the ADF for the stated objective.

The case for regional health security. Regional health security is a vital RPG and is arguably more relevant and pertinent than ever. In present time, the World Health Organization announced that the recent cluster of neurological disorders and neonatal malformations, causally linked to the Zika virus and reported in the Americas region, constitutes a ‘public health emergency of international concern.’ The paper provides several underlying factors for promoting regional health security, including: (i) Asia being considered the region where new emerging infectious diseases are most likely to originate, particularly zoonoses (i.e., diseases transmitted from animals) and vector-borne diseases, posing very high risk to not only the region but the whole world; and (ii) increased mobility of populations and enhanced vulnerability to climate change and natural disasters amplify the chances of spreading infectious diseases across Asian and Pacific developing member countries (DMCs) and beyond.

The case for grant assistance. As DMCs tend not to prioritize their own financing for RPG promotion, the key rationale for grant assistance is to create incentives for DMCs to increase related focus and investment, capture the positive externalities, and mitigate negative externalities and market failure associated with public goods. Regional health security measures tend to entail activities, such as investments in health management information systems and surveillance and mapping systems, while crucial, associated benefits are not evident, unless an epidemic hits, for example. Grant assistance can create cost-effective incentives for DMCs to focus on regional health security. Analysis of the use of the regional set-aside within the ADF, introduced in ADF VIII to support regional projects, shows that financing for RPG promotion has been limited. The proportion of the regional set-aside used for health is even smaller. This demonstrates limited DMC relative demand and low incentives to borrow for RPG promotion.

No country, irrespective of its growth and development levels, is spared from the negative effects of regional public “bads”. The paper argues that loan-eligible DMCs (for example, ordinary capital resources blend countries) benefit when even a portion of assistance is in the form of grants. ADB has experience with providing grants to loan-eligible DMCs. During ADF IX, ADF donors endorsed the provision of grants to all ADF-eligible borrowers in support of action against HIV/AIDS and other infectious diseases.
**ADB’s comparative advantage.** ADB is uniquely placed to provide support for regional health security issues. ADB’s core strengths as a regional development bank with a relevant institutional mandate, its reputation as an honest broker and trusted partner of DMCs, its effective convening power and ability to forge new partnerships, and its strategic positioning with accumulated and diverse experience in regional cooperation and integration (RCI) and health allows for an anchoring of regional health security-related RPG promotion. ADB, under its corporate, RCI (RPG is considered one pillar), and health strategies, has been a long-standing proponent of RPGs and regional health security promotion. ADB has been effective and responsive in supporting RCI in Asia and the Pacific and is well-recognized for its related efforts. This has been endorsed by evaluations both by ADB’s Independent Evaluation Department and external assessments. The Independent Evaluation Department also recommends that ADB explore opportunities to strengthen support for the broader provision of public goods. Dedicated grant financing for the promotion of regional health security-related RPGs will help ADB strengthen its support in this area.

**ADB’s strategic positioning.** In promoting regional health security, the paper argues that ADB can play a focused, complementary, and valuable role in relation to other development partners, based on its comparative advantage and building on its existing regional health portfolio. No other development partner systematically provides investment support for this issue at the regional level in Asia and the Pacific. The paper highlights ADB’s focused and successful health portfolio and experience in promoting regional health security. The successful technical and financing support to DMCs in response to health outbreaks (for example, severe acute respiratory syndrome and avian influenza [H1N1]) and disasters (for example, the response to Typhoon Haiyan in the Philippines) provides evidence that DMCs sought ADB support. In addition, ADB can build on its experience in implementing the Regional Malaria and Other Communicable Disease Threats Trust Fund to mainstream and scale up its efforts to build transnational capacity for health security.

**ADB’s use of proposed financing.** Building on past experience, ADB will use the proposed financing to support DMCs to: (i) meet international standards for health security; (ii) secure broader regional cooperation; (iii) strengthen health systems for better preparedness for pandemics (including by strengthening rapid alert systems and communication on public health threats); and (iv) respond to outbreaks with assistance of an emergency facility. Financing will also enable the use of innovative financing approaches to create incentives for DMCs to use ADB investments to strengthen their health sector budgets and sustain programs on vaccine-preventable diseases, malaria, tuberculosis, and HIV/AIDS.

**Governance arrangements.** In response to several ADF donors expressing reservations about establishing a new set-aside within the ADF and the preference not to fragment the governance structure, ADB proposes that the financing be accommodated by expanding the existing regional set-aside of the ADF on a pilot basis for the ADF 12 period. Based on ADF donors’ feedback, contributions are now sought on a voluntary basis.

**Issues for ADF donors’ endorsement.** The endorsement of ADF donors is sought:

(i) to extend grant eligibility to all regional CA countries for regional health security-related RPGs, within the existing regional set-aside of the ADF, on a pilot basis for the ADF 12 period; and

(ii) for additional financing, on a voluntary basis, from ADF donors for promotion of regional health security-related RPGs, to be accommodated within an expanded regional set-aside of the ADF.
I. INTRODUCTION

1. For the first meeting of the Asian Development Fund 12 (ADF 12) replenishment, the Asian Development Bank (ADB) presented its case to establish a Supplementary ADF Window (SAW).1 The SAW was proposed to address emerging development challenges in Asia and the Pacific2 by accommodating the willingness of some ADF donors to provide additional contributions. In particular, the SAW was proposed to provide grant financing support under ADF 12 for disaster risk reduction interventions and regional public goods (RPGs), including strengthening regional health security and providing grants to regional institutions. A number of ADF donors requested ADB to further develop the case for supporting RPGs, particularly regional health security. In response to feedback received from ADF donors at the meeting, this paper puts forward a strengthened case for ADB’s support for regional health security-related RPGs.

II. PROPOSAL

2. ADB proposes to provide strengthened support in the form of grant financing for the promotion of regional health security-related RPGs in concessional assistance countries on a pilot basis for the ADF 12 period.3 Inferring from this, ADB proposes to, in a way, reinstate the provision of grant eligibility to cover poorer loan-eligible countries for regional health security-related RPGs, as agreed during ADF IX (detailed in Section III). This would provide ADB with an opportunity to support the need for effective collective action at the regional level by addressing potential shortfalls in financing and technical support. This proposal is in line with ADB’s institutional mandate and operational directions as laid out in its regional cooperation and integration (RCI) and health strategies.

3. The current proposal is different from the one presented at the first meeting of ADF 12 replenishment in the following respects: (i) it narrows the scope of RPG support to only regional health security issues; (ii) it is mainstreamed as part of the existing regional set-aside of the ADF; (iii) it is proposed as a pilot for the ADF 12 period; and (iv) it is meant to be financed through voluntary contributions. If enough additional resources are not available, the current proposal seeks the concurrence of ADF donors to use the existing regional set-aside of the ADF for the stated objective.

4. To move forward with the proposal, the endorsement of ADF donors is sought: (i) extend grant eligibility to all regional concessional assistance (CA) countries for regional health security-related RPGs within the existing regional set-aside of the ADF on a pilot basis for the ADF 12 period; and (ii) for additional financing, on a voluntary basis, from ADF donors for promotion of regional health security-related RPGs to be accommodated within an expanded regional set-aside of the ADF.

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2 ADB. 2015. The Role of Concessional Assistance and ADB’s Strategic Priorities for Inclusive and Sustainable Development in Asia and the Pacific. Paper prepared for the first ADF 12 replenishment meeting in Manila, Philippines, 28–30 October.
3 CA countries are defined as countries that have access to ADF grant and/or concessional ordinary capital resources (OCR) loans. In ADF 12, 17 CA-only countries have access to concessional assistance only: Afghanistan, Bhutan, Cambodia, Kiribati, the Kyrgyz Republic, the Lao People’s Democratic Republic, the Maldives, the Marshall Islands, Myanmar, Nauru, Nepal, Samoa, Solomon Islands, Tajikistan, Tonga, Tuvalu, and Vanuatu. Ten OCR blend countries have access to both concessional and market-based OCR loans: Bangladesh, the Federated States of Micronesia, Mongolia, Pakistan, Palau, Papua New Guinea, Sri Lanka, Timor-Leste, Uzbekistan, and Viet Nam.
III. RATIONALE

5. Regional public goods (along with the collective action among developing member countries [DMCs] that is required to produce them) are concerned with realizing desired benefits or avoiding undesirable costs of a development activity with cross-border impacts. Over time, the accumulated opportunity costs and increase in potential risks to an individual DMC from not participating in collective action could be significant. Realizing these benefits and avoiding these costs can generate higher social returns or improvement in welfare in excess of the investment required to realize them. An individual DMC will participate in collective action when it appreciates the potential benefits for its own national development, in addition to conferring mutual benefits to others. To this end, regional evidence highlights how sustained cooperation amongst DMCs on a range of externality-related development issues helps build and strengthen trust and good relations. Asia and the Pacific is confronted with numerous development challenges that cut across national boundaries and require collective response, be it in the areas of environment (for example, combating pollution and environmental degradation), health (for example, prevention of communicable diseases), or governance (for example, transnational corruption and crime).

A. The Case for Regional Health Security

6. Regional health security is a vital RPG and is arguably more relevant and pertinent than ever. This is because of several underlying factors: (i) Asia is considered the region where new emerging infectious diseases are most likely to originate, particularly zoonoses (i.e., diseases transmitted from animals) and vector-borne diseases, posing very high risk to not only the region but also the whole world; and (ii) increased mobility of populations and enhanced vulnerability to climate change and natural disasters amplify the chances of spreading infectious diseases across Asian and Pacific DMCs and beyond. Outbreaks of emerging infectious diseases in the last decade, in turn, have had a huge impact within the region and across the world. For example, severe acute respiratory syndrome (SARS) severely impacted the tourism industry in Asia and the Pacific, which relies on 35 million tourists annually, with an estimated cost of $18 billion in East and Southeast Asia; (iii) South and Southeast Asia are home to the highest number of major bacterial pathogens (capable of causing disease) for

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4 An example is the cooperation among the DMCs of the Greater Mekong Subregion (GMS). Cambodia, the People's Republic of China (specifically Yunnan Province and Guangxi Zhuang Autonomous Region), the Lao People's Democratic Republic, Myanmar, Thailand, and Viet Nam form a natural economic area bound together by the Mekong River. In 1992, with assistance from ADB, the six DMCs entered into a program of subregional economic cooperation designed to enhance economic relations among the DMCs. With support from ADB and other donors, the GMS Program helps support projects in transport, energy, telecommunications, environment, human resource development, tourism, trade, private sector investment, and agriculture. Increasingly, with modernization and industrialization, DMCs are gradually shifting from subsistence farming to more diversified economies, and to more open, market-based systems. In parallel with this are the growing commercial relations among the six DMCs, notably in terms of cross-border trade, investment, and labor mobility. Moreover, natural resources, particularly hydro power, are beginning to be developed and utilized on a subregional basis.


6 Emerging infectious diseases are defined as diseases in humans and animals that have recently increased in severity, incidence, or geographic range; moved into new populations; or are caused by newly evolved pathogens. Vectors are living organisms that can transmit infectious diseases between humans or from animals to humans. Many of these vectors are bloodsucking insects, such as mosquitoes, flies, fleas, and ticks. WHO. Vector-borne Diseases. http://www.who.int/mediacentre/factsheets/fs387/en/

which there is antimicrobial resistance, including multi-drug-resistant tuberculosis;\(^8\) and (iv) increased regional trade facilitates the spread of vector-borne diseases as demonstrated in the rapid spread of dengue.\(^9\) Consequently, investments in regional health security are essential to promote and protect sustainable economic growth and mitigate the risks associated with greater regional integration.

7. Experience shows that regional health security risks can be addressed with concerted efforts, strong political will, country ownership, and significant increased investments, as evident by the Millennium Development Goal of halting and beginning to reverse the incidence of malaria by 2015 being “convincingly met.”\(^10\) Malaria-related deaths have been reduced by 60% since 2000 globally, with the fastest decreases seen in Central and West Asia (which reported zero cases in 2014) and East Asia.

8. Despite previous and current efforts, the development community widely acknowledges that critical gaps in the region’s capacity and preparedness for large-scale public health threats remain. These include:
   - (i) human resource constraints on coping with health threats;
   - (ii) substandard surveillance systems across countries;
   - (iii) insufficient research and development of real-time tools and methods for assessing the risks of disease emergence;
   - (iv) inadequate capacity to forecast emerging diseases through a shift from reactive to preventive measures;
   - (v) inadequate flow capacity of medical goods to respond quickly to outbreaks and pandemics; and
   - (vi) the need to develop rigorous methods for timely collation, synthesis, and dissemination of regionally relevant data to inform prompt, evidence-based policy response.

B. The Case for Grant Assistance

9. Developing member countries tend not to prioritize their own financing for RPG promotion. This is mainly due to three reasons: (i) DMCs have very limited resources and have many pressing development needs. Consequently, they are very often not in a position to allocate or sustain the necessary expenditure in collective action and project and/or program investment for cogeneration and delivery of beneficial RPGs; (ii) even if DMCs have resources, they have low incentives to dedicate resources for RPG promotion because of the nature of being nonrival (i.e., one country’s benefits from the good does not affect or reduce its benefits to others) and non-excludable (i.e., once the good becomes available, no country can be excluded

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\(^8\) Most South and Southeast Asian DMCs do not monitor or reinforce standards in antibiotic use. Self-medication with antibiotics available over the counter is common practice, and an estimated 50% of patients fail to follow the recommended antibiotics course of treatment for numerous reasons, including cost. Large quantities of antimicrobials are used in animal husbandry for therapeutic and nontherapeutic purposes. Traces of these excessively used antibiotics then find their way into the food chain. Indian Journal of Medical Research. 2010 Nov, 132(5), 482–6. http://www.globalhealthdynamics.co.uk/wp-content/uploads/2015/05/06_Song.pdf

\(^9\) International transport of cargo and goods, especially via commercial sea shipment, can also export and import dengue’s primary and secondary vectors. Transatlantic transport of used auto tires has been linked with the introduction of vector-borne diseases in Europe. N. Murray et al. 2013. Epidemiology of Dengue: Past, Present and Future Prospects. Clinical Epidemiology. 5. pp. 299–309.

from sharing its benefits); a classic example of the "prisoner’s dilemma."^{12}

10. **The key rationale for grant assistance is to create incentives for DMCs to increase related focus and investment, capture the positive externalities, and mitigate negative externalities and market failure associated with public goods.** With the notable exception of investment in economic infrastructure and trade facilitation, collective action processes for RPGs, including related to health, have traditionally depended on grant financing. Even though RPGs are crucial to achieving development goals and are therefore a legitimate component of official development assistance, the Center for Global Development estimates that spending on development-related global public goods is severely underfunded. In 2012 it reached $14 billion, or just over 10% of global official development assistance that year ($133 billion).^{13}

11. **Grant assistance can create cost-effective incentives for DMCs to focus on regional health security.** Regional health security measures tend to entail activities, such as investments in health management information systems and surveillance and mapping systems, while crucial, associated benefits are not evident, unless an epidemic hits, for example. These activities are also hard to justify given constrained DMC health sector budgets that have to show quick and measurable health outcomes, which are typically still defined by health-related sustainable development goal indicators such as maternal mortality.

12. **ADB introduced a special regional set-aside within the ADF in ADF VIII, to support regional projects including related to health, given DMC demand and the institutional emphasis placed on RCI. However, more needs to be done.** Analysis of use of the regional set-aside, detailed in Appendix 1, shows that the majority of the allocated financing over the years has been allocated to support cross-border infrastructure and related regulations, procedures, and standards (pillar 1 of the RCI strategy) and trade and investment cooperation and integration (pillar 2). Financing for monetary and financial cooperation and integration (pillar 3) and for RPG promotion (pillar 4) has been limited. The proportion of the regional set-aside used for health is even smaller. This demonstrates limited DMC relative demand and low incentives to borrow for RPG promotion. The Independent Evaluation Department (IED) evaluation of ADF X and XI operations recommended that ADB explore opportunities to strengthen support for the broader provision of public goods. Dedicated grant financing for the promotion of regional health security-related RPGs, as part of an expanded regional set-aside, will help ADB strengthen its support in this area.

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^{12} Prisoner’s dilemma is a commonly used model of game theory involving cooperative behavior. This model is used to explain real life situations where two completely rational individuals might not cooperate, even if it appears that it is in their best interests to do so.

^{13} This amount covers: (i) contributions to the United Nations and other international organizations for activities that are global in scope; (ii) spending by international organizations on research, and data collection and management, but excluding research and development within countries; (iii) contributions to global programs and products of a public good nature targeted to DMCs, such as vaccines for low-income countries or United Nations peacekeeping operations that limit cross-border conflicts in the developing world; (iv) transfers to a DMC to finance activities with global benefits but excluding those activities whose expected benefits are locally concentrated (for example, HIV/AIDS prevention within a country’s own borders); and (v) contributions towards enforcement and monitoring of international agreements with shared global benefits, for example, the Montreal protocol. Center for Global Development. Global Public Goods for Development: How Much and What for. http://www.cgdev.org/publication/global-public-goods-development-how-much-and-what

13. **No country, irrespective of its growth and development levels, is spared from the negative effect of regional public "bads."** For example, avian influenza A [H5N1] had a profound effect on the poultry industry in Southeast Asia. Viet Nam culled 45 million birds in 2003–2004, with a loss of about $118 million.\(^{15}\) When it comes to communicable diseases, there is increasing drug resistance to existing treatment, especially for malaria within the Greater Mekong Subregion (GMS) and in DMCs such as Bangladesh and tuberculosis in South Asia and Central and West Asia, although technologies exist to prevent and treat these diseases. It is estimated that in the United States alone, antimicrobial resistance costs an estimated $20 billion a year in excess health care costs, $35 billion in other societal costs, and more than 8 million additional days that people spend in hospital.\(^{16}\) The outbreak of SARS was estimated to have lowered real gross domestic product by approximately $1.5 billion in 2003 in Canada. This confirms that an outbreak in a DMC in Asia and the Pacific can have negative economic impacts beyond the region.\(^{17}\) At the same time, an outbreak elsewhere in the world could impact the region. In present time, the World Health Organization (WHO) announced that the recent cluster of neurological disorders and neonatal malformations, causally linked to the Zika virus and reported in the Americas region, constitutes a "public health emergency of international concern". It constitutes an "extraordinary event" and a public health threat to other parts of the world.\(^{18}\)

14. **Loan-eligible DMCs (for example, OCR blend countries) benefit when even a portion of assistance is in the form of grants.** While extension of eligibility for grants to these DMCs is a departure from the current practice of providing grants to heavily indebted countries, related benefits can be positive. The Institute of Health Policy has argued that as regional DMCs enjoy relatively good economic growth, active efforts, stimulated by development partners, are needed to increase domestic health financing levels to reduce reliance on donor funding.\(^{19}\) ADF grants and ADF grant-blended loans are effective instruments to bridge financing gaps from existing donors and advance domestic financing. At the same time, these instruments create government commitment to mobilize domestic resources in the medium term for cross-border health issues, including communicable diseases. Suboptimal focus on RPG provision places even these DMCs at risk of countering significant development progress made to date should there be a large-scale health epidemic. This in turn impacts DMCs that are dependent through trade and supply chains. With increased RCI in Asia and the Pacific, these issues become more important.

15. **ADB has experience with providing grants to loan-eligible DMCs.** During ADF IX, ADF donors endorsed the provision of grants to all ADF-eligible borrowers in support of action

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\(^{16}\) National Institute of Allergy and Infectious Diseases. Antimicrobial (Drug) Resistance Quick Facts. https://www.niaid.nih.gov/topics/antimicrobialresistance/understanding/Pages/quickFacts.aspx


\(^{18}\) The International Health Regulation Emergency Committee has agreed that a causal link between the cluster of neurological disorders and neonatal malformations and Zika virus disease is strongly suspected. At present there are 28 countries in the Americas where the Zika virus is circulating. The Zika virus, a mosquito-borne infection is caused by Aedes mosquitoes. The World Health Organization website. Accessed on 2 February 2016.

\(^{19}\) Institute for Health Policy. 2014. *Burden of Malaria and other Infectious Diseases in the Asia and Pacific Region*. Discussion paper.
against HIV/AIDS and other infectious diseases.\footnote{ADB. 2004. *ADF IX Donors Report: Development Effectiveness for Poverty Reduction*. Manila. The ADF IX grant framework was broadly aligned with the International Development Association (IDA) 13 framework. IDA14 marked a major change in the framework, linking grant eligibility exclusively to a DMC’s debt distress status. Donors supported ADB’s proposal at the ADF IX midterm review that the ADF IX framework be aligned to IDA14 starting in 2007. Consequently, the allocation set-aside for HIV/AIDS and other communicable diseases was not extended. Support for health RPGs was impacted as a result of this (Appendix 1). ADB. 2006. Report on ADF IX Grant Framework and Proposal for Alignment with IDA14 Grant Framework. Paper prepared for the ADF IX midterm review meeting in Frankfurt, Germany, 4–6 December.} The following box illustrates two examples of notable successes.

### ADB Experience with Grant Support to Loan-Eligible Developing Member Countries

The **Greater Mekong Subregion Regional Communicable Diseases Control Project**\(^{a}\) was approved in 2005 with a $30 million grant component ($15 million grant for Viet Nam). Designed to develop the capacity to contain emerging diseases and reduce the burden of common neglected diseases, the project had a substantial impact in the control of avian and human influenza, dengue, and neglected tropical diseases. Regional networking (and associated follow-up cofinancing generated) also contributed to communicable disease control. The project was completed in 2012 and was rated **successful**.

The **Second Urban Primary Health Care Project**\(^{b}\) for Bangladesh was approved in 2005. It was partly financed by a $10 million grant and aimed to improve the health of the urban population. Improved access to primary health care services reduced the under-5 mortality rate, maternal mortality rate, total fertility rate, and prevalence of sexually transmitted infection by more than the targeted reduction, while the target for child malnutrition was attained. At the end of the project, the under-5 mortality rate was reduced by 25% (original target of 15%), maternal mortality rate by 41% (original target of 15%), total fertility rate by 16% (original target of 10%), sexually transmitted infection by 87% (original target of 20%), and child malnutrition by 10% (target met). The project was completed in 2014 and was rated **highly successful**.

\(^{a}\) ADB. 2005. *Report and Recommendation of the President to the Board of Directors: Proposed Grant to the Kingdom of Cambodia, the Lao People’s Democratic Republic, and the Socialist Republic of Viet Nam for the Greater Mekong Subregion Regional Communicable Diseases Control Project*. Manila.


### C. ADB’s Comparative Advantage

16. **ADB is uniquely placed to provide support for regional health security issues.** ADB’s core strengths as a regional development bank with a relevant institutional mandate, its reputation as an honest broker and trusted partner of DMCs, its effective convening power and ability to forge new partnerships, and its strategic positioning with accumulated and diverse experience in RCI and health allows for an anchoring of regional health security-related RPG promotion.

17. **ADB, under its corporate and RCI strategies, has been a long-standing proponent of RPGs.** Cooperation in RPGs is one of the four pillars of ADB’s RCI strategy (pillar 4).\footnote{ADB. 2006. *Regional Cooperation and Integration Strategy*. Manila. The strategy identifies four pillars: (i) cross-border infrastructure and related regulations, procedures, and standards; (ii) trade and investment cooperation and integration; (iii) monetary and financial cooperation and integration; and (iv) cooperation in RPGs.} Given
the importance placed on RCI in Asia and the Pacific, ADB identified regional integration as one of the three strategic agendas, and RCI as a core operational area, it would pursue under its long-term strategic framework Strategy 2020. In addition, it introduced a corporate target of 30% for RCI share of total operations by 2020. ADB is on track to meet this target. The IED Strategy 2020 midterm review report in 2014 recommended that ADB increase support for RPGs through lending, knowledge exchange, and policy dialogue. The ensuing midterm review of Strategy 2020 reinforced that RCI remain as an important strategic agenda for ADB. It supported movement to a second-generational RCI model based on devoting more attention to supporting RPGs, including effective regional responses for the control of communicable diseases.

18. **ADB has been effective and responsive in supporting RCI in Asia and the Pacific and is well recognized for its related efforts.** ADB has developed a regionally and internationally renowned reputation—among both DMCs and other development partners—as an honest broker for RCI. This unique role of ADB is exemplified by its long-standing and mature secretariat functions that enable and assist DMCs to achieve impactful collective action and to produce equally impactful RCI. IED’s evaluation of ADF X and XI operations concludes that ADB has developed a good reputation for its RCI support and that stakeholders see significant potential to continue this momentum (footnote 14). During ADF XI, particularly, intensifying RCI support was seen as critical, given rising concerns for RPGs, energy security, food security, and climate change, as well as the need to address other social and environmental effects of faster growth. The recent IED evaluation of ADB’s efforts on RCI noted an above-average performance of RCI projects within the broader ADB project portfolio. ADB-related efforts are also recognized by external assessments. For example, ADB was rated strong by survey respondents for its support of RCI in the 2013 assessment of ADB by the Multilateral Organization Performance Assessment Network.

19. **ADB continues to be strongly committed to regional health security promotion under its RCI and health operational plans, including by expanding its related human resources.** Under the forthcoming RCI Operational Plan (2016–2020) ADB expects, among other things, to expand and diversify its support to collective action that would (i) improve cross-border health security, (ii) assist DMCs to implement commitments under the 2030 Agenda for Sustainable Development and other similar agreements to which DMCs are signatories, and (iii) support pilot programs and projects in RPG promotion. On a similar note, ADB’s Operational Plan for Health (2015–2020) lays out ADB’s mandate to increase investments in the health sector and to expand its support for health-related RPGs. Targets are in place to double its current total annual approvals by 2020, as set out in the midterm review of Strategy 2020. In addition, regional health security is a flagship program under the operational plan. Furthermore,

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30. ADB will expand operations in the health sector to 3%–5% of its annual approvals, from 2% during 2008–2012.
investments will also target health in other sectors to mitigate communicable diseases risks from urban development and climate change.

20. The aforementioned commitments are matched with a steadily growing ADB health sector team. In 2015, ADB created three new health specialist positions, expanding the core team of health experts to 12. Staff gaps are also bridged through recruitment of secondees, long-term consultants, and partnerships with centers of excellence and technical agencies such as the WHO to boost technical skills, knowledge, and networks. More positions will be created as the portfolio grows.

D. ADB’s Strategic Positioning

21. In promoting regional health security, ADB can play a focused, complementary, and valuable role in relation to other development partners, based on its comparative advantage and building on the existing regional health portfolio (see following figure). ADB’s strengths—including its wide array of financial products; market expertise; access to markets; and mandate to forge the dialogue between ministries of finance, ministries of foreign affairs, trade agencies, and ministries of health—should be utilized. In the case of the latter, this dialogue serves to increase and foster investments in health risk mitigation measures from regional cooperation, trade, and economic growth, thereby strengthening regional health security. No other development partner systematically provides investment support for this issue at the regional level in Asia and the Pacific. To date, large donors and partners such as the Global Fund, the Bill and Melinda Gates Foundation and the United Kingdom’s Department for International Development have targeted their support through vertical programs and not through a regional lens. While the WHO is a long-standing technical partner for standards setting, policy guidance, and knowledge sharing, it is not in a position to provide solutions for increasing health financing—a crucial component in addressing regional health security. ADB recognizes the importance of strategic partnerships, including with specialized United Nations agencies and special funds, based on comparative advantages, as being key for this work.
22. **ADB has a focused and successful health portfolio and experience in promoting regional health security** (Appendix 2). While the financing envelope has been small, ADB’s capability to design and implement health sector projects is evident from the successful project completion reports.\(^{31}\) The successful technical and financing support to DMCs in response to health outbreaks (for example, SARS and avian influenza [H1N1]) and disasters (for example, the response to Typhoon Haiyan in the Philippines) provides evidence that DMCs sought ADB support. In addition, ADB can build on its experience in implementing the Regional Malaria and Other Communicable Disease Threats Trust Fund to mainstream and scale up its efforts to build transnational capacity for health security.\(^{32}\) Finally, ADB is already responding to government and partner demand for innovative health financing structures that contribute to regional health security in a number of tangible ways:

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\(^{31}\) IED. 2008–2013. Project completion reports for health programs rated 12 projects out of 13 **successful**.

\(^{32}\) The fund was established on 9 December 2013 to support DMCs in achieving and sustaining national malaria control and elimination targets, including control of artemisinin-resistant malaria and other communicable diseases. The fund supports DMCs to (i) develop multicountry, cross-border, and multisector responses to urgent malaria issues; and (ii) build knowledge, systems, and cooperation needed to manage other communicable disease threats through a health system strengthening approach. The consultations for this fund found that DMCs, especially ADF-eligible DMCs, are looking to ADB to establish a grants-based facility to address communicable diseases and build more resilient health systems and emergency funds in case of outbreaks. ADB. Regional Malaria and Other Communicable Disease Threats Trust Fund (RMTF). http://www.adb.org/site/funds/funds/rmtf
(i) providing technical assistance to assess the feasibility of designing a social impact bond to raise capital for much-needed interventions such as antimicrobial resistance or vaccination coverage;³³

(ii) planning to design a potential “pandemic” bond for the region to tackle impending disease outbreaks and manage regional health financing without donor dependencies; and

(iii) planning to design a public–private partnership mechanism to address the burgeoning hepatitis C epidemic in Mongolia.

23. **ADB also supports knowledge partnerships and alliances to promote regional health security.** The following are two examples to illustrate how ADB promotes capacity development, policy dialogue, and knowledge sharing through partnerships:

(i) ADB supports the Asia eHealth Information Network, comprising more than 600 members from regional DMCs, that builds capacity and shares best practices on digital health solutions for better health management information systems, accountability in the health sector, and improved service delivery; and

(ii) ADB supports the Duke-National University of Singapore Graduate Medical School Singapore Center of Regulatory Excellence, a capacity development and policy platform to advance regulatory practices in Asia and the Pacific and improve access to safe, high-quality, and affordable medicine and address root causes of antimicrobial resistance.

24. **ADB’s use of proposed financing.** Building on past experience, ADB will use the proposed financing to support DMCs to (i) meet international standards for health security,³⁴ (ii) secure broader regional cooperation; (iii) strengthen health systems for better preparedness for pandemics (including by strengthening rapid alert systems and communication on public health threats); and (iv) respond to outbreaks with assistance of an emergency facility. Financing will also enable the use of innovative financing approaches (para. 22) to provide incentives for the DMCs to use ADB investments to strengthen their health sector budgets and sustain programs on vaccine-preventable diseases, malaria, tuberculosis, and HIV/AIDS as they transition the financing of these programs from the Global Alliance for Vaccines and Immunization and other health grant mechanisms to sustained domestic financing.³⁵

25. ADB will build on the existing pipeline, if donors, and then the Board of Directors, approve the proposal. Appendix 3 details the current pipeline and some examples of possible pipeline support with the financing received, based on DMC demand and consultation.

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³³ Social impact bonds require an identified outcome that a DMC government is interested in achieving but is currently unable to fund. ADF grants could be used to structure social impact bonds through technical assistance, developing the design and facilitating the discussions between stakeholders. ADF grants could also be structured as guarantees for social impact bonds. CA countries with potential interest in social impact bonds in health for addressing communicable diseases include Bangladesh, Bhutan, Cambodia, Mongolia, Pakistan, Papua New Guinea, Tajikistan, and Sri Lanka.


³⁵ Major health donors, such as The Global Fund and the Global Alliance for Vaccines and Immunization, are phasing out funding for health given the DMCs’ move to middle-income status. They are encouraging governments to take responsibility for funding health threats and emerging diseases through domestic resources. Unfortunately, the health budgets of many DMCs are not yet responding fully to the phasing out of donor support. This leads to a large gap in health funding and an imminent threat to health security through the jeopardizing of achievements made in infectious diseases control and pandemic preparedness.
IV. GOVERNANCE ARRANGEMENTS

26. In response to several ADF donors expressing reservations about establishing a new set-aside within the ADF and the preference to not fragment the governance structure, ADB proposes that the financing be accommodated by expanding the existing regional set-aside of the ADF on a pilot basis for the ADF 12 period.  

27. Discussions on financing options during the first meeting for the ADF 12 replenishment, highlighted the importance of providing flexibility in contributions through the use of financing, both "above the line" as part of the regular ADF contribution framework and "below the line" as voluntary contributions. However, based on ADF donor feedback received since the first meeting, financing is requested on a voluntary basis.

28. Selected projects will be designed, processed, approved, implemented, and administered in accordance with applicable ADB policies, rules, procedures, and guidelines, including those relating to procurement, consulting services, social and environmental safeguards, financial management and reporting, disbursement, and anticorruption and governance. Arrangements for project accounting, auditing, and close monitoring and reporting will be in place for all projects supported by the financing.

29. ADF donors, at the first meeting of the ADF 12 replenishment, agreed that the ADF 12 midterm review meeting would provide a good opportunity to review ADB’s progress in this area. ADB also proposes that IED undertake an evaluation of the use of this financing before the end of the ADF 12 replenishment period. This would lay the foundation for the ADF 13 replenishment meetings to include a substantive discussion on whether to extend the pilot period, mainstream this work as part of the regular ADF contribution framework, or suspend dedicated financing for this work.

V. ALLOCATION AND ELIGIBILITY CRITERIA

30. ADB interventions with the financing will be subject to the following proposed allocation criteria:

   (i) Engagement only when ADB’s intervention benefits a broad constituency of DMCs and is consistent with ADB’s development mandate and its relative strengths;

   (ii) Prioritization of eligible DMCs with an ongoing and planned ADB health sector portfolio for a strong leveraging effect;

   (iii) Strong government commitment, financial management and fiscal responsibility, and assessment of measurable outcomes and impacts;

   (iv) Focus on sustainable projects or programs that strengthen health systems for regional health security while reinforcing development partner coordination;

   (v) Support for regional components which can build on existing RCI mechanisms. Components must also take account of the shared interest of that particular region;

   (vi) Support for structuring innovative blended lending products for DMCs;

36 For the ADF 12 period, the regional set-aside is currently proposed to be at ADF XI levels, i.e., 10% of funds are earmarked for regional projects.

(vii) Support to strengthen regional capacity development, regional development partner coordination, knowledge sharing, policy harmonization, and data sharing for health security;
(viii) Presence of a clear institutional and financial gap where appropriate mechanisms do not already exist or are insufficient to address the particular issue. In doing so, ADB should fully account for the mandates and strengths of other relevant development partners; and
(ix) Presence of ADB necessary capabilities (both its operational experience and instruments at the country level).

31. The concessionality of financing for the regional set-aside currently follows ADB’s debt sustainability framework, i.e., grants are provided to grant-eligible countries and loans are provided to loan-eligible countries. As the paper proposes, for all CA countries to benefit from the financing, existing eligibility criteria for ADF grants to promote regional health security would need to be modified to cover all CA countries. However, this is proposed with two caveats: (i) priority and a large share of the financing will be given to grant-eligible DMCs, which will be encouraged to make use of the regional set-aside for regional health security; and (ii) for OCR-blend countries, a greater ownership, including via a greater contribution of resources from their performance-based allocation, for envisioned interventions would be a necessary condition for the provision of grants.

VI. ESTIMATED FINANCING NEEDS FOR ASIAN DEVELOPMENT FUND 12

32. The size of the regional set-aside expansion will correspond with the amount of contributions received by ADF donors. Based on internal consultations with relevant departments, and in turn DMC demand for such financing, up to $150 million can be absorbed in the ADF 12 period and would make a meaningful impact. If enough additional resources are not available, ADF donors’ concurrence will be sought to use the existing regional set-aside of the ADF for the stated objective. At the time of the ADF IX replenishment, the provision of grants to all ADF-eligible borrowers in support of action against HIV/AIDS and other infectious diseases was at two percent of total financing envelope for the same period. At this time, ADB seeks only one percent of the overall envelope for the stated objective for the ADF 12 period.

VII. ISSUES FOR ASIAN DEVELOPMENT FUND DONORS’ ENDORSEMENT

33. The endorsement of ADF donors is sought:
   (i) to extend grant eligibility to all regional CA countries for regional health security-related RPGs, within the existing regional set-aside of the ADF, on a pilot basis for the ADF 12 period; and
   (ii) for additional financing, on a voluntary basis, from ADF donors for regional health security-related RPGs promotion, to be accommodated within an expanded regional set-aside of the ADF.

39 To demonstrate country ownership, the project must be partially financed from participating DMCs’ performance-based allocations. For CA-only countries, of the total concessional financing, two-thirds will come from the regional pool and one-third from performance-based allocations. For OCR blend countries, one-quarter will come from the regional pool and three-quarters from performance-based allocations.
USE OF REGIONAL SET-ASIDE WITHIN THE ASIAN DEVELOPMENT FUND

1. The Asian Development Fund (ADF) has a strong track record in finding solutions to regional challenges. While the established ADF regional set-aside has been effective in promoting regional cooperation and integration (RCI), financing to promote regional public good (RPGs) has been limited. Since ADF VIII, the ADF has had a regional set-aside with established allocation and eligibility criteria. In ADF IX, the amount of funds earmarked for RCI projects was set at 5%; in ADF X, this was doubled to 10%. Demand for financing under the ADF set-aside has always exceeded supply. During ADF IX and X, demand was roughly double the available resources. Countries have shown their willingness to exceed the country ownership requirement for the use of the set-aside. During ADF X, performance-based allocation contributions reached $1.2 billion—117% more than the minimum required contribution of $520 million. Consequently, during the discussions to enhance the financial capacity of the Asian Development Bank (ADB) by combining ADF lending operations with the ordinary capital resources (OCR) balance sheet, the proposal to increase the financing needs for RPGs and RCI, to be accommodated by further increasing the regional set-aside, was tabled.

2. The box on the following page illustrates the use of RCI financing over the past three ADF periods. Data shows that the majority of the allocated financing was given to support cross-border infrastructure and related regulations, procedures, and standards (pillar 1 of the RCI strategy) and trade and investment cooperation and integration (pillar 2), while financing for monetary and financial cooperation and integration (pillar 3) and for RPG promotion (pillar 4) was limited. This demonstrates that DMC demand and related incentives to borrow for RPG promotion have been low.

3. Support for regional health projects was more significant during ADF IX ($16 million, 18% of the set-aside) than in subsequent periods (no more than 4%). The RCI allocation to regional health projects in ADF IX was 100% grants; in ADF X, grants were less than 50%. The incentives provided during ADF IX were discontinued for ADF X and beyond (footnote 19 of the main text), which could account for the weaker support in subsequent years.

Use of Regional Set-Aside within the ADF

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<tr>
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<td>C. of which health ($ million)</td>
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<td>D. Health as % of RCI set-aside (C/A)</td>
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<td>E. Grants for health support via RCI set-aside ($ million)</td>
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ADF = Asian Development Fund, RCI = regional cooperation and integration, RPG = regional public good

** While no regional health project was approved in the first half of ADF XI, some projects are in the pipeline for 2016 approval.


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1 The country ownership requirement specifies that for every $1.00 drawn from the set-aside, countries must match it with $0.50 from their performance-based allocation.

Appendix 1

Use of Regional Cooperation and Integration Financing (Loans and Grants)

ADF = Asian Development Fund, OCR = ordinary capital resources.
Data for 2015 not yet available. Figures rounded to nearest significant unit.
ADB’S SUPPORT FOR REGIONAL HEALTH SECURITY: KEY ACHIEVEMENTS

1995-2006
ADB started to support capacity development and policy dialogue for HIV/AIDS in the Greater Mekong Subregion (GMS) in the 1990s. ADB was one of the first organizations that: (i) recognized and addressed the link between human mobility and the spread of HIV/AIDS; and (ii) developed strategies to address HIV risks in infrastructure projects. ADB also supported regional knowledge sharing and learning events on HIV/AIDS and other communicable diseases, which were instrumental in strengthening developing member country (DMC) understanding of regional cooperation on health related public goods. This work was further deepened through the regional support for responding to the severe acute respiratory syndrome (SARS) (2003) and avian influenza (2006) outbreak and the establishment of the ‘Cooperation Fund for Fighting HIV/AIDS in Asia and the Pacific’ in 2006.

2003: Emergency Regional Support to Address the Outbreak of Severe Acute Respiratory Syndrome
Through $5.5 million in technical assistance (TA), ADB demonstrated its capacity and flexibility in providing quality emergency assistance to DMCs facing health threats particularly from the outbreak of SARS. ADB support, in collaboration with the World Health Organization (WHO), ensured technical quality and harmonization of assistance at both the country- and regional-level. This support initiated a model of cooperation between ADB and other technical agencies that later proved critical for the control and prevention of H5N1 avian influenza and influenza pandemic preparedness. The TA assisted DMCs in capacity building for controlling SARS, and subsequently, for preventing and controlling avian influenza and other emerging communicable diseases in the region. It underscored the need for a coordinated approach at the regional level for public goods such as communicable disease control.

2004 Asian Development Fund (ADF) IX Replenishment
At the time of the ADF IX replenishment, the provision of grants to all ADF-eligible borrowers in support of action against HIV/AIDS and other infectious diseases was at two percent of total financing envelope for the same period.

2005: Greater Mekong Subregion Regional Communicable Diseases Control Project
With the anticipated growth in trade and tourism resulting from increased connectivity between countries in the GMS, the $30 million project contributed significantly in building country capacity to respond to collective vulnerability to health threats that cross national borders, thereby fostering cooperation and information exchange on CDC at the regional level. All three focus DMCs—Cambodia, Lao People’s Democratic Republic, and Viet Nam—individually and collectively, strengthened the capacity of their communicable disease control systems to rapidly assess the emergence of epidemics and take timely action to control its spread. Workshops and meetings organized by the Regional Coordination Unit encouraged interaction between experts in the DMCs, and built mutual trust and familiarity. This laid the foundation for future coordination of regional and cross-border communicable disease control. Building on the project’s success, the second phase of ADB support for communicable disease control in the GMS was approved in 2010, with $58.5 million in loans and grants including additional financing approved in 2015, and a third project is under processing.

2005: Establishment of the Cooperation Fund for Fighting HIV/AIDS in Asia and the Pacific\(^3\)

ADB established the Fund in 2005, financed with $19.2 million by the Government of Sweden. The objective of the fund was to support DMCs to develop a comprehensive AIDS response; enable them to partner with ADB in areas that play to ADB’s strategic value and advantages; and particularly to benefit subregions, countries, and communities that are most vulnerable to HIV. The creation of the fund formalized and focused ADB’s existing contribution to the region’s AIDS response.\(^5\)

2006: Prevention and Control of Avian Influenza in Asia and the Pacific\(^6\)

ADB support (which included $25 million of grant assistance and $17.2 million technical assistance) was the first emergency initiative undertaken by ADB on such a large scale. Its design took an innovative approach to avian influenza, which strategically contributed to harmonizing regional efforts. This was complemented by strong coordination amongst stakeholders (development partners and DMC governments) as stakeholder consultations were effective and efforts to ensure country ownership were strong. Related outputs contributed directly to: (i) containing infection from avian influenza at the source, as measured through poultry mortality returning to below 2004–2005 levels in the region; and (ii) enhanced preparedness for a pandemic as measured through the establishment of appropriate response mechanisms in the region. The contribution to improved regional capacity, regional coordination, and regulatory framework proved effective during the 2009 H1N1 pandemic and the number of newly affected DMCs decreased during 2007–2009. The mechanisms established during the avian influenza and SARS epidemic laid the ground for the development of the WHO International Health Regulations and the Asia-Pacific Strategy for Emerging Diseases (footnote 33 of the main text).

2008: Integrating Human Trafficking and Safe Migration Concerns for Women and Children into Regional Cooperation\(^7\)

ADB applied lessons learned from regional collaboration on communicable diseases to broader social development issues such as safe migration. The $1 million TA supported broader issues of migration and built on ADB’s successful regional policy dialogue on public goods and its role as convener of different stakeholders and DMCs. The support contributed towards: (i) enhanced mainstreaming of human trafficking and safe migration aspects particularly for women and children into ADB-assisted regional cooperation initiatives; and (ii) enhanced regional capacity for policy dialogue and partnerships. In the GMS, capacity building was conducted at the community, national, and regional levels. This support helped to explicitly integrate human trafficking and safe migration concerns into the ‘Strategic Framework and Action Plan for Human Resources Development in the GMS 2009–2012’. The “new generation” trafficking research supported by the TA identified new trafficking routes and the methods to address them. The TA raised antitrafficking awareness within the GMS tourism and transport sectors, and through support to the Asian Institute of Technology, carried out in particular a cross-border research on the social impact of the Kunming-Bangkok Highway. In South Asia, heightened

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5 ADB had supported projects relating to HIV since the early 1990s, through interventions focusing on cross-border areas and mobile populations in the Mekong region, studies on the economic implications of HIV in its developing member countries, and a joint World Health Organization–ADB treatment and care initiative in Papua New Guinea.


interest in the national legal framework and the South Asian Association for Regional Cooperation Convention amendments led the Government of Bangladesh to draft a comprehensive law on trafficking, and Maldives to start a comprehensive situation analysis of the state of human trafficking in the country. These were followed by regional and in-country consultations and country-driven advocacy. Subregional exchange contributed to cross-regional policy dialogue and was delivered through two regional workshops involving government representatives from the GMS, South Asia, and global experts.

2013: Establishment of the Regional Malaria and other Communicable Diseases Trust Fund

The Regional Malaria and other Communicable Diseases Threats Trust Fund was established to respond to the increasing threats of drug resistant malaria and other communicable diseases in Asia Pacific. The Fund is able to leverage its activities in support of malaria elimination to strengthen both national health systems, for example, through strengthened regulations of pharmaceuticals and increased use of digital health tools for more effective health information systems and health sector management. The fund is also acting as both a catalyst and financing body for innovations, bringing together centers of excellence to operationalize public health research on communicable diseases surveillance, service delivery approaches and regulatory practices.

8 To date the Fund has received $28.7 million. The amount is fully programmed in TA projects and in additional financing for the Communicable Diseases Project 2 in GMS countries. It is estimated that malaria elimination in Asia and the Pacific will cost around $24.5 billion over the 15 years. ADB. Regional Malaria and Other Communicable Disease Threats Trust Fund (RMTF). http://www.adb.org/site/funds/funds/rmtf
### ADB PIPELINE FOR REGIONAL HEALTH SECURITY-RELATED REGIONAL PUBLIC GOOD PROMOTION

($ million)

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ADF = Asian Development Fund, BAN = Bangladesh, CAM = Cambodia, CWRD = Central and West Asia Department, DMC = developing member country, GMS = Greater Mekong Subregion, LAO = Lao People's Democratic Republic, MYA = Myanmar, NEP = Nepal, OCR = ordinary capital resources, PAK = Pakistan, PARD = Pacific Department, REG = regional, SARD = South Asia Department, SERD = Southeast Asia Department, VIE = Viet Nam.

* Possible pipeline with ADF 12 financing.