ADB

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ADB's Capacity to Respond to Economic Crises

Asian Development Bank

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ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
bps	–	basis points
CSF	–	countercyclical support facility
DMC	–	developing member country
GDP	–	gross domestic product
IDA	–	International Development Association
IED	–	Independent Evaluation Department
IMF	–	International Monetary Fund
IRM	–	immediate response mechanism
LIBOR	–	London interbank offered rate
LIC	–	low-income country
MDG	–	Millennium Development Goal
OCR	–	ordinary capital resources
PBA	–	performance-based allocation
SDR	–	special drawing rights
SMEs	–	small and medium-sized enterprises
TA	–	technical assistance
TFP	–	Trade Finance Program

NOTE

In this report, "$" refers to US dollars.

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EXECUTIVE SUMMARY

During the second Asian Development Fund (ADF) XI Replenishment Meeting in Dhaka, Bangladesh on 5–6 December 2011, donors requested that the Asian Development Bank (ADB) report on ADB's capacity to respond to economic crises in ADF countries at the next ADF XI Replenishment Meeting in Manila. This paper responds to this request.

Since the 1997–1998 Asian financial crisis, ADB has developed a rich package of instruments to assist its developing member countries (DMCs) in responding to economic crises, including:

(i) knowledge and advice to monitor and analyze the impact of a crisis on DMCs;
(ii) immediate assistance to assess the impact and develop response strategies;
(iii) conventional lending modalities, especially policy-based lending, to support government's increased financing needs and fiscal measures;
(iv) trade finance programs (TFP) to support access to trade financing through providing loans and guarantees to banks;
(v) the countercyclical support facility (CSF) for blend and ordinary capital resources (OCR) countries;
(vi) additional financing to existing projects to support much needed investment; and
(vii) technical assistance to assist countries in enhancing response capacities.

These instruments have significantly enhanced ADB's institutional preparedness to assist the DMCs facing economic crises, as demonstrated by ADB's response to the 2008–2009 global economic crisis. During that crisis, ADB proactively implemented a holistic package of assistance. In addition to the regular loans and technical assistance, ADB

(i) approved an additional $400 million ADF commitment authority for ADF-only countries, and allowed front-loading of up to 100% of their biennial (2009–2010) ADF allocation;
(ii) established the $3 billion CSF for OCR and blend countries;
(iii) expanded the TFP in March 2009 by raising the exposure limit from $150 million to $1 billion; and
(iv) supported knowledge sharing, economic analysis, policy advice, and capacity building for DMCs.

An independent evaluation study (2011) rated ADB's performance highly in responding to the 2008–2009 global financial crisis. The strong capacity established since 1997–1998 enables ADB to assist its DMCs effectively to respond to future economic crises. There is, however, scope to equip ADB to do even better, especially for assisting ADF-only countries. For OCR and blend borrowers, ADB adopted the CSF as a permanent modality in July 2011. Allocation of OCR is also much more flexible. Resource allocation for ADF-only countries is governed by the performance-based allocation (PBA) formula. The PBA criteria are appropriate for a non-crisis situation. However, crisis response requires more flexible resource mobilization. ADB should explore ways to enhance its crisis response capacity for ADF-only countries.

Global economic crises generate tremendous economic and social costs and erode development gains, especially for poor countries and people. Effectively responding to economic crises has large development benefits. The vast needs created by a crisis require the collective efforts of development agencies. Enhancing ADB's crisis response capacity will enable ADB to effectively complement other development partners and assist DMCs.

I. INTRODUCTION

1. During the second Asian Development Fund (ADF) XI Replenishment Meeting in Dhaka, Bangladesh on 5–6 December 2011, donors requested that the Asian Development Bank (ADB) report on ADB's capacity to respond to economic crises in ADF countries at the next ADF XI Replenishment Meeting in Manila. Drawing on ADB's experience in responding to the 2008–2009 global financial crisis, this paper provides an assessment of ADB's capacity to support its developing member countries (DMCs), especially low-income countries (LICs), in crisis situations.[1] The report refers to analyses and findings from an independent evaluation[2] and self-evaluations conducted by ADB in 2011.[3]

2. The report highlights ADB's support for LICs that receive ADF. However, the capacity to respond to crises applies to both ADF and non-ADF countries.[4] Thus, the report also covers ADB's general capacity for assisting DMCs facing economic crises.

II. GLOBAL ECONOMIC CRISES: LESSONS FOR ASIA AND THE PACIFIC

A. The 2008–2009 Global Crisis

3. The impact of the current eurozone crisis on countries in Asia and the Pacific is still unfolding. However, the global financial crisis in 2008–2009 provides insights into how a financial crisis originating in advanced economies can adversely affect DMCs. In 2007, the subprime mortgage crisis initially occurred as a domestic event in the United States (US). In its preliminary phase, damage to developing countries was limited. However, the collapse of the investment bank Lehman Brothers in September 2008 turned the domestic banking crisis into a global financial crisis that became a fully-fledged economic crisis.

4. The experience of the 2008–2009 financial crisis offers several lessons for developing Asia.[5]

5. First, developing Asia is not immune to the adverse impact of global economic crises. Developing Asia generally endured the crisis well, initially because of the minimal exposure of its financial system to the "toxic assets." However, while some observers forecast that Asia had been "de-coupled" from the crisis,[6] the region proved not to be immune from the impact of the global crisis. The escalating crisis that began in early 2007 hit DMCs hard, but with a significant lag—when the demand for DMC exports started to decline in the second half of 2008. DMCs were experiencing strong adverse impacts by early 2009.

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[1] In this paper, LICs refer to ADB's DMCs with access to the ADF, including both ADF and blend countries.

[2] ADB. 2011. *Special Evaluation Study: Real-time Evaluation of Asian Development Bank's Response to the Global Economic Crisis of 2008–2009.* Manila.

[3] ADB. 2011. *Assessment of ADB's Response to the Global Economic Crisis 2007–2010*. Manila.

[4] ADB follows a three-tier country classification system (groups A, B, and C) to differentiate in regard to ADF eligibility. Group A DMCs are "fully eligible," group B DMCs are eligible for "limited amounts in particular circumstances," and group C DMCs are ineligible for ADF resources. Group A countries are thus characterized as "ADF-only" countries, group B countries with ADF access are characterized as "ADF-ordinary capital resources (OCR) blend" countries, while group C countries are "OCR-only" countries.

[5] In this paper, 'developing Asia' refers to 44 DMCs of the ADB. It is used interchangeably with 'Asia and the Pacific'.

[6] ADB's assessment in the early phase of the crisis was that no evidence pointed to decoupling, on the grounds that Asia's regional integration remained structurally linked to final demand from major industrial economies. See ADB. 2007. *Asian Development Outlook 2007: Growth amid Change*. Manila.

6. Second, a global economic crisis can affect developing Asia through multiple channels. The 2008–2009 global crisis was transmitted to DMCs through three channels—trade, capital flows, and remittances:

(i) **Reduction in exports**. In 2009, trade declined by 12.2% globally, and by 16.4% in developing Asia. Exports declined by as much as 32% in Central Asia. As many as 14 DMCs, mostly smaller island economies and those from Central Asia, had negative gross domestic product (GDP) growth in 2009.[7]

(ii) **Cross-border financial contagion**. The loss of confidence in global markets tightened developing Asia's financing conditions. For developing Asia, net private financial flows fell from $196 billion in 2007 to $34 billion in 2008.[8] Both foreign portfolio and direct investment were affected. In particular, sudden withdrawal or contraction of trade finance seriously hurt trade activities in many DMCs, and the impact was even worse for small and medium-sized enterprises (SMEs).[9]

(iii) **Remittances**. Markets for expatriate workers suffered, with a resulting impact on remittances to home countries. The flow of remittances into many DMCs decelerated or declined.

7. Third, global financial crises generate tremendous economic and social costs and erode development gains. In 2009, developing Asia recorded a growth rate of 5.9%. While this rate was higher than other regions in the world, it was developing Asia's slowest growth in 8 years.[10] The slow growth has strained the pace of poverty reduction.[11] It is estimated that the number of poor[12] in the region would have declined by 317 million from 2005 to 2010 if there had been no economic slowdown. Updated poverty estimates,[13] taking into account the recent financial crisis along with food and fuel price hikes, have registered the lower total of 266 million people lifted out of poverty in the same period. In ADF countries, the rate of poverty reduction has been significantly slower. The number of people living in poverty in the ADF countries only declined from 166 million to 134 million during 2005–2010.

8. The reduction in economic growth will have an impact on progress toward achieving the Millennium Development Goals (MDGs) in ADF countries.[14] Historical evidence suggests that the impact of economic cycles on the MDGs is highly asymmetric—deterioration in bad times is generally much greater than improvements during good times. This asymmetry may exacerbate the impact of the crisis.[15] Unemployment is one of the main causes of worsening poverty, and

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[7] ADB. 2011. *Asian Development Outlook 2011.* Manila.
[8] IMF. 2010. *World Economic Outlook: Rebalancing Growth.* Washington, DC. p.178.
[9] World Bank. 2009. *Trade and Trade Finance Developments in 14 Developing Countries Post September 2008–A World Bank Survey.* Washington, DC. pp. 4–5.
[10] ADB. 2009. *Asian Development Outlook 2009*. Manila.
[11] R. Hasan, M.R. Magsombol, and J. Salcedo Cain. 2009. Poverty Impact of the Economic Slowdown in Developing Asia: Some Scenarios. *ADB Economics Working Paper Series*. No. 153. Manila: ADB.
[12] Based on $1.25/day poverty line.
[13] G. Wan and I. Sebastian. 2011. Poverty in Asia and the Pacific: An Update. *ADB Economics Working Paper Series.* No. 267. Manila: ADB.
[14] From 2008 to 2015, the crisis is likely to result in 5 million more undernourished people; 151,000 additional children out of primary school; about an additional quarter of a million students unable to complete primary school; more than half a million additional child deaths; and 29,000 mothers dying as a result of childbirth. From 2008 to 2010, the crisis is likely to result in 1 million more undernourished people; 41,025 additional children out of primary school; 41,255 students unable to complete primary school; 93,000 additional child deaths; and 3,000 mothers dying as a result of childbirth.
[15] IMF and World Bank. 2010. *Global Monitoring Report 2010—The MDGs after the Crisis*. Washington, DC.

tends to recover more slowly than GDP growth. In addition, the speed of recovery from a crisis tends to be slower and the poverty impact greater in LICs.[16]

B. Possible Impacts of the Euro Area Crisis on Developing Asia

9. The potential triggers for transforming the eurozone crisis into a global crisis—and whether there is a profound risk of this occurring—are still evolving. However, DMCs, including LICs, should be prepared to cope with such a potential eventuality.

10. Most countries in developing Asia will probably not be directly affected by the eurozone sovereign debt workouts, as the region has limited direct exposure to assets from the euro area. While the region's economic expansion has moderated, it remains robust. The economic resilience is partly due to the ongoing process of rebalancing sources of growth from external to domestic demand.

11. Nevertheless, a prolonged crisis in the eurozone and protracted recovery in the US could have strong repercussions on developing Asia. Both the US and the eurozone are major markets for the region's exports and sources of capital inflows. While the Asian Development Outlook Update published in September 2011 forecast that ADF only countries would grow by 6.0% in 2012 as a whole,[17] the growth rate is likely to be lower when recent global economic conditions are taken into consideration. While ADB remains cautiously optimistic about developing Asia's growth prospects, downside risks are building up:

(i) **The euro area crisis poses serious risks for financial stability in developing Asia**. Over the past decade, many economies in developing Asia have liberalized their financial systems. While this has benefited economies, it has also made the region more vulnerable to external shocks. A prolonged eurozone crisis could accelerate capital outflows, reducing investment confidence, and hurt consumption.

(ii) **Reduction in demand can be a drag on developing Asia's exports**. A prolonged or deeper eurozone debt crisis will dampen demand for exports from developing Asia. Contraction in trade financing could exacerbate the adverse impact.

(iii) **Fiscal impact**. Fiscal situations in economies of developing Asia have worsened since the 2008–2009 global financial crisis, partly as a result of efforts to stimulate economic activities. A global economic crisis could reduce the region's growth. Lower growth can in turn reduce revenue while increasing the need for government spending.

12. Although most LICs do not have direct financial links with global finance, they have been integrated into the global economy through international trade. Therefore, LICs are prone to the adverse impacts of global financial crises.[18] Of 35 DMCs, 20 were severely affected by the 2008–2009 crisis, many of which are from the Pacific and Central Asia. The International

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[16] Independent Evaluation Group (International Finance Corporation, Multilateral Investments Guarantee Agency, and World Bank). 2009. The World Bank Group's Response to the Global Crisis: Update on an Ongoing IEG Evaluation. *Evaluation Brief*. No. 8 (November). The World Bank. Washington, DC.

[17] ADB. 2011. *Asian Development Outlook 2011 Update: Preparing for Demographic Transition.* Manila.

[18] R. Boldwin, ed. 2010. *Great Trade Collapse: Causes, Consequences, and Prospects.* London: Center for Economic Policy Research.

Monetary Fund (IMF) forecasts that a decline of 1.5 percentage points in global growth could lead to a 2.0 percentage point decline in LIC growth in 2011–2012.[19]

13. The severity of the euro area impact on developing Asia will depend on the policy responses in the region. In addition to standard fiscal and monetary policy, securing trade credit to prevent a repeat of the 2008–2009 trade collapse should remain high on the region's priority list. International development agencies should assist developing countries in preventing significant adverse impacts on trade and growth.

C. Possible Impacts of the Euro Area Crisis on ADB Operations

14. It is too early to determine if ADB's specific facilities, such as the countercyclical support facility (CSF) of 2009, will be required. However, fiscal space is constrained in many countries, and a slowdown in growth will exacerbate the situation. This in turn may warrant budgetary support. It is likely that some countries may require compositional shifts in lending from project assistance to budgetary support. Banks in some countries may need trade financing support.

15. ADB is in dialogue with DMCs about the possible impact of the euro area crisis on the DMCs, and remains vigilant about any assistance that DMCs may require from ADB.

III. ADB'S CAPACITY TO RESPOND TO ECONOMIC CRISES

A. Overview of ADB's Response to the 2008–2009 Global Economic Crisis

16. The 2008–2009 crisis was notable for its global reach, which necessitated a global solution. At the height of the crisis, members of the Group of 20 countries (G20) held a summit in London on 2 April 2009. The G20 urged multilateral development banks to step up their countercyclical efforts to offset capital flight; and to maintain demand by providing finance for fiscal expansion, social safety nets, trade financing, and infrastructure investment in emerging markets and LICs.[20] They called for multilateral development banks to adopt flexible, fast-disbursing, and front-loaded instruments to assist developing countries substantially and quickly.

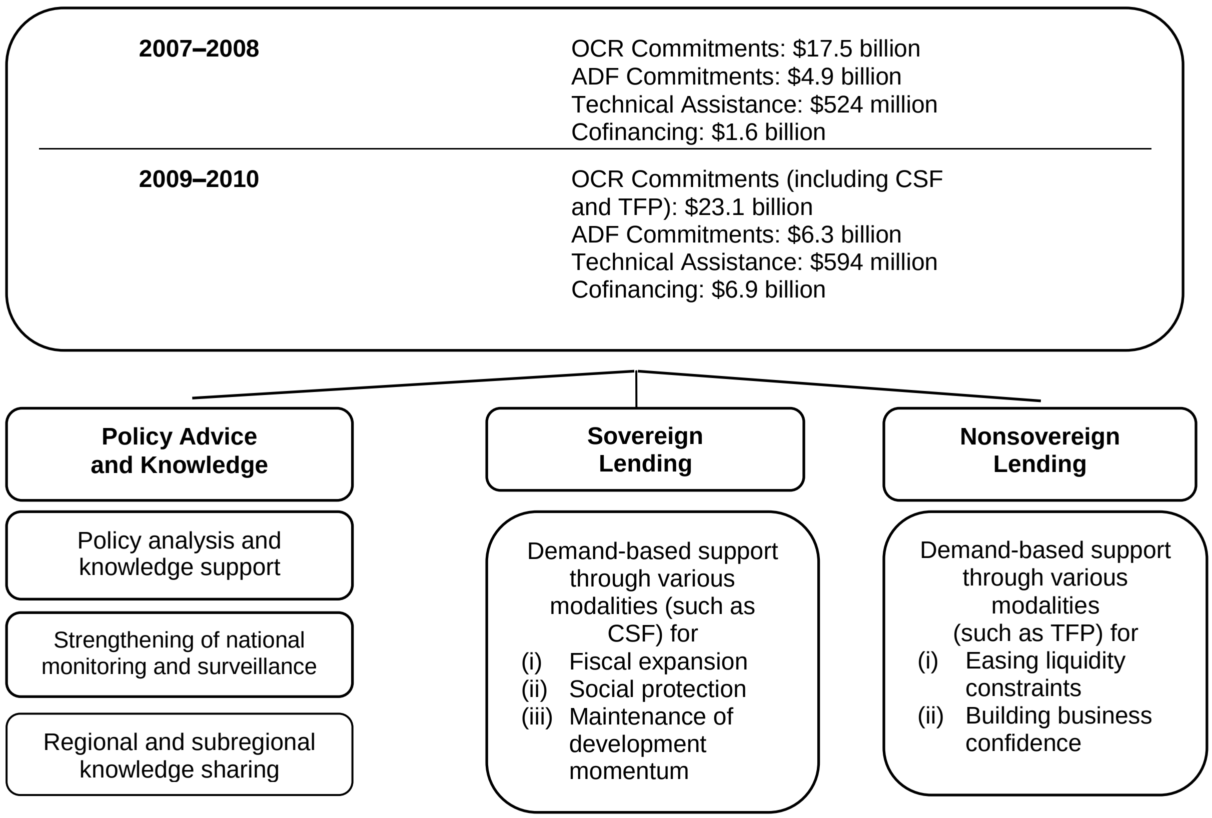
17. ADB responded proactively to the call of the G20 and implemented a holistic package of assistance. It mobilized various means of assistance in both ADF and non-ADF countries. ADB's crisis-related lending amounted to about $8.6 billion for 2008–2010. In addition to the regular loans and technical assistance (TA), ADB established the $3 billion CSF in June 2009 as a time-bound budget support instrument, and expanded the Trade Finance Program (TFP) in March 2009 by raising the exposure limit from $150 million to $1 billion. ADB also supported knowledge sharing, policy analysis, and capacity building for DMCs. ADB focused on helping DMCs expand public expenditure to mitigate the adverse impact, especially on the poor and vulnerable. ADB also recognized the need to safeguard the potential for future growth and supported private sector development and infrastructure investment.[21]

[19] IMF. 2011. *Managing Global Growth Risks and Commodity Price Shocks—Vulnerabilities and Policy Challenges for Low-Income Countries.* Washington, DC.
[20] G-20. 2008. Communiqué: Meeting of Finance Ministers and Central Bank Governors, United Kingdom, 14 March 2009. London.
[21] ADB. 2009. *Global Financial Crisis and Proposed ADB Response*. Manila.

18. Developing Asia rebounded rapidly from the second quarter of 2009, supported by governments' aggressive use of fiscal and monetary stimuli. The ADB assistance played an important catalyst role for this stimulus. A recent special evaluation study by the Independent Evaluation Department (IED) of ADB rated ADB's support to the 2008–2009 crisis to have been relevant, responsive, and satisfactory in achieving program objectives and initial results.[22]

19. Figure 1 summarizes ADB's response to the 2008–2009 global economic crisis. Details of ADB's response are provided in the Appendix.

Figure 1: Summary of ADB's Crisis Response



ADB = Asian Development Bank, ADF = Asian Development Fund, CSF = Countercyclical Support Facility, OCR = ordinary capital resources, TFP = Trade Finance Program.
Notes:
1. OCR and ADF commitments are based on gross approvals.
2. Technical assistance (TA) includes grants from the Technical Assistance Special Fund, other TA grants, and TA cofinancing.
3. TA and cofinancing figures for 2007–2009 are net of cancellations.
Source: ADB. 2011. *Assessment of ADB's Response to the Global Economic Crisis 2007–2010*. Manila.

[22] For an explanation of rating descriptions used in ADB evaluation reports, see: ADB. 2006. *Guidelines for Preparing Performance Evaluation Reports for Public Sector Operations.* Manila.

B. ADB's Capacity to Respond to Economic Crises

20. This section provides an assessment of ADB's capacity to respond to economic crises, drawing from ADB's experience in 2008–2009.

1. Need for a Holistic Package of Instruments

21. History has repeatedly shown that economic crises are costly. They create tremendous adverse impacts for countries and their citizens, eroding development gains and setting back development progress. Poor countries and people are especially vulnerable to crises. Development agencies' responses thus need to be proactive as well as reactive, and their instruments need to be evolving and comprehensive.

22. ADB's experience from the 2008–2009 crisis highlights the importance of at least the following instruments:

(i) institutional preparedness to respond in a timely manner and effectively;
(ii) quick-disbursing financial support to counter the economic shocks;
(iii) mechanisms for partnership for augmenting the assistance; and
(iv) knowledge and policy advise to prevent and deal with a crisis.

2. ADB's Capacity

a. Institutional Preparedness

23. ADB has established strong capacity to respond proactively to global financial and economic crises. The independent evaluation highlights ADB's high degree of institutional readiness in assessing potential risks to DMCs, formulating and implementing responses, mobilizing resources, and strategically positioning its crisis response instruments.

24. Learning from the experience of the 1997–1998 Asian financial crisis, ADB has enhanced the flexibility, speed, and effectiveness of its crisis response capacity. ADB has developed a rich package of instruments to respond to economic crises. Table 1 summarizes ADB's assistance available to respond to economic crises.

25. ADB also implements institutional changes during a crisis to enhance its capacity. In 2009–2010, for example, ADB streamlined its business processes. These actions showed ADB's readiness and capacity for making quick changes to the organization, which DMCs appreciated (footnote 2).

b. Financial Instruments

26. ADB has several financing instruments to respond to economic crises.

27. **Conventional Lending Modalities**. Conventional lending can be used to respond to a crisis. Such financing adheres to normal loan terms, conditions, and policies. ADB's existing lending instruments, especially policy-based lending, were used to provide assistance to DMCs during the 2008–2009 global economic crisis.

28. Conventional policy-based lending is generally conditional upon countries undertaking structural reforms. This may not be appropriate during a crisis when the top priority should be stabilizing the economy. The lengthy period needed to process a conventional policy-based loan also poses constraints during a crisis. Even with much effort, policy-based lending was processed in 8 months on average in 2009. This was shorter than the 2-year average before the crisis, but still too long for dealing with urgent crisis situations. Project lending was processed in an even longer time of 16 months on average in 2009. Thus, while conventional instruments can be used to respond to crises, they may not be the most efficient and effective tools.

Table 1: Summary of ADB's Assistance Available for Responding to Economic Crises

Name of Assistance	Purpose	Available for	Characteristics
Knowledge and advice	• To monitor and analyze the impact of a crisis on DMCs • To share experiences and approaches for responding to crises	ADB as well as the wider public	• Applied economic, financial, and social analyses
Immediate assistance	• To assess the impact of a crisis and develop a recovery strategy	Borrowing member countries hit by a crisis	• Rapid assessments in close coordination with development partners
Conventional lending modalities, especially policy-based lending	• To support government's increased financing needs and mitigate the impact of a crisis	Borrowing member countries hit by a crisis	• Following conventional lending procedures. Policy-based lending generally requires conditions on reforms
Countercyclical support facility	• To support government's increased financing needs and mitigate the impact of a crisis	OCR and blend member countries	• Quick disbursement based on macroeconomic conditions
Additional financing	• To support much needed investment	All borrowing member countries	• For investment operations only • Providing additional financing for ongoing projects
Technical assistance	• To assist the countries in formulating responses and enhancing response capacities	All borrowing member countries	• Supporting analyses, advice, and capacity building

ADB = Asian Development Bank, DMCs = developing member countries, OCR = ordinary capital resources.
Source: Asian Development Bank.

29. **Countercyclical Support Facility.** The CSF, established as a transitory facility responding to the 2008–2009 global economic crisis, expired at the end of 2010. Recognizing that the lack of a ready instrument in early 2009 delayed ADB's response, and that having such

an instrument would enhance ADB's preparedness, the Board approved the CSF as a regular modality in July 2011 through the review of policy-based lending in July 2011.[23] The CSF is designed to support DMCs' fiscal stimulus during times of economic crisis, and contain the adverse impact of the crisis on growth. It does not require structural reforms at the microeconomic level. This feature reflects important lessons learned from the 1997–1998 Asian currency crisis: (i) once it happens, a crisis requires macroeconomic resolutions; structural reforms have little immediate relevance (and are possibly counterproductive);[24] and (ii) a decline in aggregate demand needs to be responded to with countercyclical, not pro-cyclical, macroeconomic policy.[25]

30. The CSF takes the form of single-tranche lending operations. The recipient DMC can exercise a precautionary financing option to postpone drawing the loan for a defined drawdown period after the loan has become effective. CSF lending for each DMC is capped at $500 million for each crisis episode.

31. The CSF's resources were generated by designating higher interest and shorter maturity within ADB's risk-bearing capacity. A CSF loan comprises (i) a minimum 200 basis points (bps) spread over the London interbank offered rate (LIBOR), with the rebate and surcharge reflecting the cost of funds, (i) maturity of 5−8 years including a grace period of 3 years, and (ii) a commitment charge of 75 bps per year on the undisbursed loan. For each CSF operation, ADB confirms the debt sustainability of the borrower. Article IV consultations with the IMF should have been conducted within the previous 18 months, and its findings should inform the review of macroeconomic policy and public finance of the potential CSF borrower. An IMF assessment letter should also be secured before the Board's consideration.

32. The CSF's innovative and responsive approaches provided much needed liquidity to DMCs during 2008–2009. The higher pricing and shorter maturity quickly bring funds flowing back to ADB's balance sheet. The CSF provided necessary additional resources to augment ADB's regular financing. It also enables ADB to assist DMCs flexibility and quickly. However, this facility is only available to ordinary capital resources (OCR) and blend countries.

33. **Trade Finance Program.** The TFP is an excellent crisis-response instrument in developing Asia where trade intensity is high; and for smaller DMCs that rely on foreign trade and are more vulnerable to crises. The TFP is a transitory arrangement and its sunset clause ends in 2013. ADB will assess, based on market conditions, whether to propose continuation of the TFP and if so at what level. The TFP is available for all DMCs.

34. **Additional Financing.** The newly adopted additional financing policy adds to ADB's toolbox for responding to crises. The additional financing policy, which became effective in February 2011, enables ADB to deliver emergency assistance through an ongoing non-emergency project. The link between emergency and ongoing projects facilitates the rapid provision of emergency assistance, and provides much needed flexibility to enable ADB and DMCs to respond more effectively to crises. The additional financing can use all sources of

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[23] ADB. 2011. *Review of ADB's Policy-Based Lending.* Manila.
[24] M. Feldstein. 1998. Refocusing the IMF. *Foreign Affairs*. 77 (2). pp. 20–33.
[25] See discussions in J. Stiglitz. 2002. *Globalization and Its Discontents*. London: Penguin; and K. Rogoff. 2003. The IMF Strikes Back. *Foreign Policy.* 134 (January/February). pp. 38–46. As Stieglitz points out, the standard macroeconomic prescription at the time of recession should be expansionary in nature, rather than contractionary. As Rogoff argues, however, preserving sufficient fiscal space during non-crisis times should be regarded as a prerequisite for expansionary crisis response. For this reason, the CSF set a sound fiscal position and broader macroeconomic management as eligibility criteria.

financing in ADB, including ADF. The additional financing policy applies only to projects, not to policy-based lending.

35. **Technical Assistance.** ADB can provide TA to (i) assess the impact of a crisis; (ii) support the immediate short-term requirements in the wake of a crisis; (iii) prepare interim operational strategies; (iv) prepare assistance programs and/or projects; (v) build DMC capacity for surveillance, preparedness, and prevention; and (vi) support the production of advice and knowledge products.

36. TA is especially valuable in bringing together DMCs across the region to share experience and discuss responses. In DMCs with weak public financial management systems, providing TA as part of the ADB crisis response was crucial in helping mitigate fiduciary risks, among others. Thus, TA support is crucial to enhance government capacity, even when government requests for assistance focus on more urgent financial needs.

c. Development Partnership

37. No single agency or actor can provide all the resources and assistance needed to cope with a crisis. Development agencies can complement each other and augment resources and support to meet the vast needs of countries facing a crisis. ADB's crisis assistance focuses on areas where it has an existing role and comparative advantages. ADB was able to expand its development partnerships during the 2008–2009 crisis. From 2007 to 2009, overall cofinancing increased about fourfold, and the number of cofinancing partners more than doubled. Not only has this helped to increase the valuable cofinancing, it has also provided avenues for coordinated efforts, information sharing, and sound policy advice.

d. Knowledge and Advice

38. ADB demonstrated a strong capacity to provide much needed knowledge and advice to DMCs during a crisis. ADB's knowledge departments are equipped to provide timely advice and analysis to the Board, Management, and DMCs. They have shown strong capacity in producing highly relevant analytical work. In addition, operational departments' long-standing engagements with DMCs and country knowledge have helped them to provide sound advice within ADB and to DMCs.

39. Early in the 2008–2009 crisis, ADB set up a regional economic task force to exchange views on macroeconomic issues. This set-up can ensure coordination between operations and knowledge departments, create synergies, bring in economies of scale in knowledge, and facilitate cross-regional fertilization of experiences and ideas.

40. ADB has developed various knowledge products analyzing the impact of the euro area crisis. The knowledge departments have been updating Management and the Board about the likely development of the crisis. They also have the capacity to collaborate for credible and reliable policy advice in ADB and to DMCs. ADB's operations departments are also well prepared to provide operational and knowledge support to DMCs. As part of this engagement, operations departments are discussing the likely euro area impacts with DMCs and whether any responses are needed from ADB.

41. Overall, ADB has continuously improved its responsiveness, flexibility, speed, and effectiveness in responding to economic crises since the 1997-1998 Asian financial crisis. ADB's experience during the 2008-2009 global economic crisis demonstrates its strong capacity

to respond to global economic crises. A recent independent evaluation study (footnote 2) has found that ADB's institutional preparedness is high, its lending instruments are rich and flexible, and its knowledge and advice capacity are strong. ADB has also effectively reached out to development partners to augment finance and expertise.

IV. NEED TO ENHANCE CRISIS RESPONSE CAPACITY FOR ADF COUNTRIES

42. No two crises are identical. ADB's responses need to be adjusted to suit each crisis. Institutional as well as financial preparedness is therefore critical. In this regard, there is scope for further enhancing ADB's effectiveness and the timeliness of crisis-related assistance in the future, especially in ADF countries.

A. ADF Countries' Need for Crisis-Related Assistance

43. ADF countries are subject to a variety of crises that can undermine their economic and social development efforts, including economic shocks such as food, fuel, and financial crises. The experiences of Asia and the Pacific highlight the detrimental impacts of economic crises on long-term development, including lower growth, a lower rate of poverty reduction, destruction of infrastructure, and an increased need for public spending at a time when revenue is declining. Quick changes in global food and oil prices that have a limited impact on many OCR and blend countries can have a dramatic and adverse impact on ADF-only countries. Governments in ADF countries have limited capacity to cope with economic shocks. The poor suffer more from these negative impacts.

44. Assistance from development agencies is critical to mitigate the adverse impacts of economic crises on these countries. Effective responses to economic crises therefore have significant development impacts. LICs' demand for financing and other assistance is tremendous after a crisis. The vast financing and assistance needs require the participation of different agencies to augment the resources and expertise. The risks of duplicating work among development agencies are minimal. ADB has traditionally coordinated with other development partners in responding to crises, and can effectively complement other development partners if it has sufficient means to respond to a crisis in ADF countries.

B. Existing Gaps and Need to Strengthen ADB's Capacity

45. Flexibility in resource allocation is necessary during crisis situations. In 2009–2010, while ADB successfully mobilized significant additional resources to help ADF countries, the response was not proportionate to the magnitude of the adverse impacts faced by different countries. As shown in Figure 2, the recent record does not indicate a positive correlation between the drop in ADF countries' growth rates under the crisis and the increase in ADF allocation for each country.

46. The resource allocation for ADF-only countries is governed by the performance-based allocation (PBA)[26] formula. The PBA is based on policy and institutions, governance, portfolio, population, and per capita income. These criteria are primarily aimed at ensuring a sound policy

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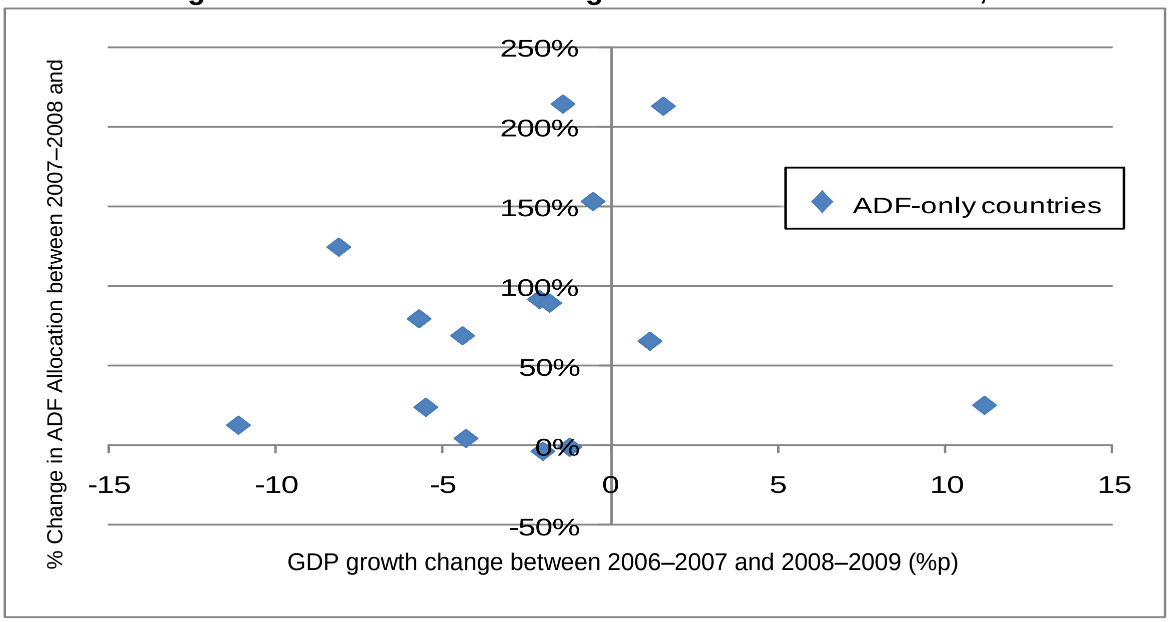
[26] ADB's PBA policy prioritizes country performance as the basis for allocation of ADF resources. The composite country performance ratings (i.e., country policy and institutional performance rating, governance rating, and portfolio rating) are derived from country performance assessments undertaken by country teams. The formula-based allocation for most grant recipients is reduced by a volume discount. ADB. 2008. *Refining the Performance-Based Allocation of Asian Development Bank Resources.* Manila.

framework for medium-term growth. These criteria are appropriate for a non-crisis situation. However, crisis response requires more flexible resource mobilization.

Figure 2: ADF Allocation during the Global Financial Crisis, 2009–2010



ADF = Asian Development Fund, GDP = gross domestic product, PBA = performance-based allocation.
Note: Data excludes a postconflict country (Afghanistan).
Source: ADB. 2011. *Assessment of ADB's Response to the Global Economic Crisis 2007–2010.* Manila.

47. In addition to flexible resource allocation, having effective instruments to deliver resources to crisis affected countries is critical. ADB has learned from responding to the 2008–2009 economic crisis that creating a new mechanism only after the outbreak of a crisis is suboptimal as it can cause delays. Having permanent crisis response mechanisms will better prepare ADB to provide timely assistance to DMCs. ADB's new policy-based lending, adopted in July 2011, recognizes the risks and lost opportunities caused by delayed crisis response. Timeliness is critical; usually, the earlier the response, the more effective it is. Thus, for OCR and blend borrowers, ADB adopted the CSF as a permanent modality in July 2011.

48. However, similar instruments are missing for ADF-only countries. The instruments available for ADF-only countries are conventional policy-based lending and additional financing. Conventional policy-based lending traditionally requires reforms as conditionality. Structural reforms play crucial roles in the medium term, but these may not be appropriate when the immediate objective is to finance countercyclical expenditures to protect growth from the crisis. Additional financing, is designed for investment lending rather than macroeconomic support for crisis response. While quicker than conventional project lending, it lacks the promptness of the CSF.

49. The eurozone crisis heightens the urgency of providing flexibility to respond to crises for ADF-only countries. One important difference between the last global financial crisis and the current eurozone crisis involves macroeconomic buffers. Whereas LICs had more fiscal and broader macroeconomic buffers during the last crisis, they have not been able to rebuild the buffers since then. The recovery in growth in 2010 and higher revenues helped to some extent, but these were compromised by the need to respond to the food and commodity price shock in

2011. The absence of sufficient crisis response buffers implies a heightened need for external support this time. The IMF estimates that $9 billion–$27 billion in additional external financing may be needed for LICs experiencing a negative terms of trade shock.

50. In 2009, ADB allowed ADF borrowers to front-load their allocation, but only four countries—Armenia, Georgia, Mongolia, and Papua New Guinea—chose this option. Nine other countries front-loaded within their policy limit. ADF countries were reluctant to front-load their allocations because they feared jeopardizing their ongoing development programs. Only those countries with access to alternative forms of financing, such as OCR, opted for this flexibility since they could use such financing to offset the declining ADF in future years.

51. ADB is thus constrained in responding to crises faced by ADF-only countries by two interlinked factors—lack of flexibility in resource allocation during a crisis, and lack of specific mechanisms to channeling resources to ADF-only countries promptly. In case of an economic crisis, ADB can assess the scope for reallocation and reprogramming. However, these efforts may not be sufficient and may be too slow. ADB should explore ways to enhance its crisis response capacity for ADF-only countries. In this context, the World Bank's Immediate Response Mechanism (IRM), approved by the Board of the World Bank on 8 December 2011, provides a useful reference.[27] The IRM allows IDA countries immediate access to a portion of the undisbursed balances of their IDA project portfolio in the event of an eligible crisis and emergency. It is designed to significantly shorten the time between an eligible crisis or emergency event and access to IDA resources from about 11 months under the crisis response window to about 2 weeks under the IRM.

V. CONCLUSION

52. Financial and economic crises are costly. They generate tremendous adverse financial, economic, and social impacts; erode development gains; and set back countries' development progress. Effectively responding to economic crises has tremendous development benefits for developing Asia.

53. ADB learned lessons from the 1997 Asian financial crisis and has significantly enhanced its capacity in responding to crises. The institutional preparedness is much higher, the lending instruments are much richer and more flexible, and the knowledge and advice capacity is much stronger. ADB has also reached out to its DMCs and development partners. An independent evaluation study (2011, footnote 2) rated ADB's performance highly in responding to the 2008–2009 global financial crisis. The strong capacity enables ADB to assist its DMCs effectively to respond to future economic crises.

54. There is, however, scope to equip ADB to do even better, especially for assisting ADF-only countries. ADB needs to explore the scope and approaches to increase the flexibility of resource mobilization for ADF countries in the face of economic crises. Effective assistance from ADB can help DMCs safeguard development gains, given the huge damages that crises can cause on development. Further, the vast needs created by a crisis require the collective efforts of development agencies to augment resources and expertise. Enhancing ADB's crisis response capacity will enable ADB to effectively complement other development partners in providing much needed assistance to LICs in the face of an economic crisis.

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[27] World Bank. 2011. *Proposal for an IDA Immediate Response Mechanism*. Washington, DC.

ADB'S RESPONSE TO THE 2008–2009 GLOBAL ECONOMIC CRISIS

A. Institutional Preparedness

1. An independent evaluation found that ADB was much better prepared to respond to the 2008–2009 crisis than it had been to the 1997 Asian financial crisis.[1] Learning from that crisis, the Asian Development Bank (ADB) has taken numerous measures to improve its preparedness:

(i) **Enhanced economic monitoring capacity**. ADB established the Regional Economic Monitoring Unit in 1999, and expanded it to the Office of Regional Economic Integration (OREI) in April 2005, incorporating a Regional Economic Monitoring Unit. This arrangement has considerably enhanced ADB's ability to monitor regional economies. While OREI's monitoring mainly focuses on the Association of Southeast Asian Nations (ASEAN) and the People's Republic of China, Japan, and the Republic of Korea (ASEAN+3 countries), it also provides economic and financial analyses that cover broader developing Asian economies.

(ii) **Strengthened knowledge capacity**. ADB's knowledge departments, the Asian Development Bank Institute, the Economics and Research Department, OREI, and the Regional and Sustainable Development Department—periodically briefed ADB's Management and Board of Directors; and political, administrative, and business leaders (particularly within ASEAN+3). Two important ADB publications—the *Asian Development Outlook* and its *Updates*, and the *Asia Economic Monitor*—provided valuable information regarding the likely impact of the global economic crisis on the region. ADB also produced numerous working papers and other knowledge products on the crisis.

(iii) **Better prepared operations departments**. ADB's operations departments are better prepared to provide operational and knowledge support to developing member countries (DMCs). Through significant increases in policy-based lending since 1997, operations department gained substantial experience in engaging with DMC governments in policy dialogue, policy reform, institutional development, and knowledge dissemination.

2. ADB's enhanced capacity enabled it to respond effectively to the 2008–2009 crisis. As depicted in Figure A.1, Management's planning was swift and ADB's actions were timely. Soon after the collapse of Lehman Brothers in September 2008, ADB Management set up a crisis-response task force to prepare ADB's assistance. In October 2008, ADB developed an assessment of the macroeconomic soundness and vulnerability of individual DMCs to the crisis. Soon after, it prepared "Plan B: ADB Crisis Management Measures" to create interdepartmental arrangements, strengthen economic and financial surveillance and monitoring, intervene to revive financial markets, and support national economies. By January 2009, ADB had prepared a proposal to respond to the global economic crisis.

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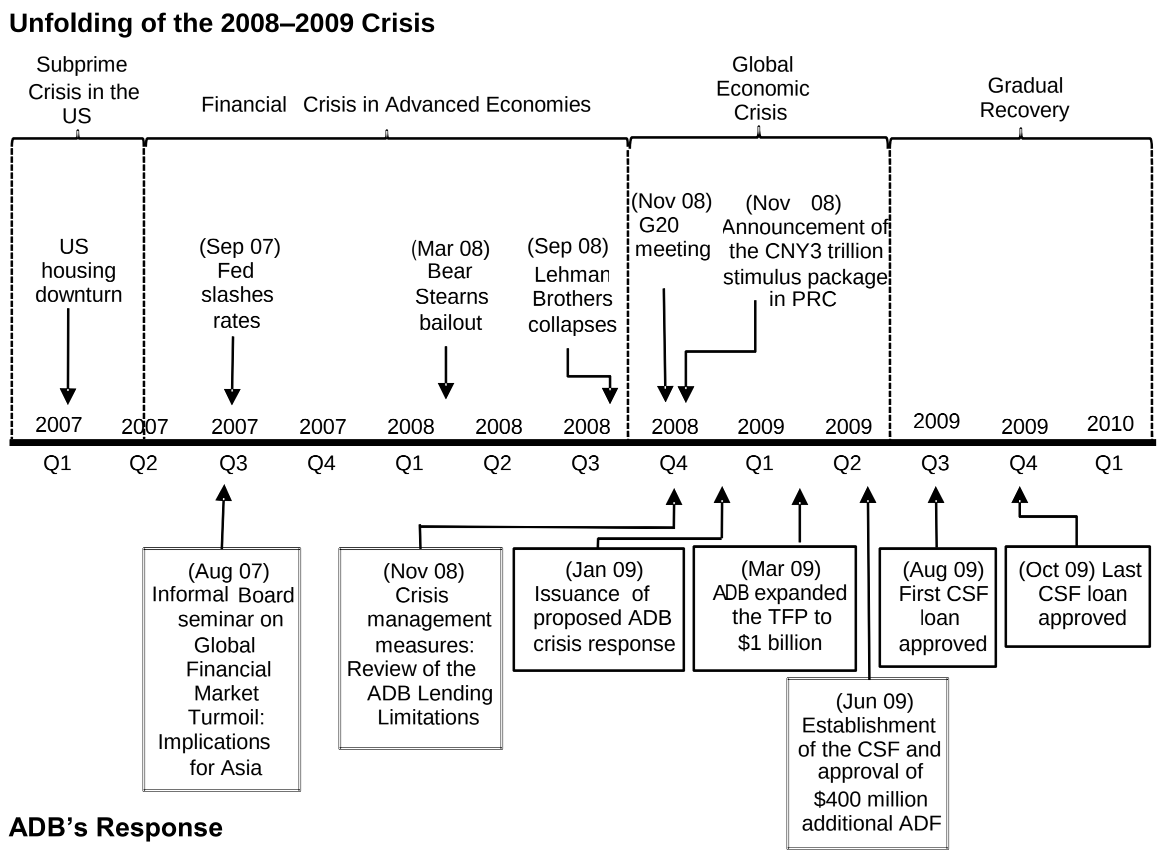
[1] ADB. 2011. *Special Evaluation Study: Real-time Evaluation of Asian Development Bank's Response to the Global Economic Crisis of 2008–2009.* Manila.

Figure A.1: ADB's Operations Response



ADB = Asian Development Bank, ADF = Asian Development Fund, CSF = Countercyclical Support Facility, PRC = People's Republic of China, Q = quarter, TFP = Trade Finance Program, US = United States.

Sources: ADB. 2011. *Evaluation Study: The Asian Development Bank's Support to Developing Member Countries in their Response to the Global Economic Crisis of 2008–2009*. Manila; and ADB. 2011. *Special Evaluation Study: Real-time Evaluation of Asian Development Bank's Response to the Global Economic Crisis of 2008–2009.* Manila.

B. Operations

1. Overall Operations

3. With the completion of the fifth general capital increase (GCI V) and successful ninth replenishment of the Asian Development Fund (ADF X), ADB was able to provide much more countercyclical assistance to DMCs. Overall ADB approvals averaged $14.7 billion in 2009–2010, compared to $11.2 billion in 2007–2008. The crisis response to ADF-only countries (Group A) averaged $1.3 billion from 2009 to 2010, 69% higher than the average of 2007–2008. When regional growth dipped to its lowest level at 5.4% in 2009 from the decade's peak of 10.1% in 2007, ADB's total operations reached a historic high of $16.1 billion. As the region's recovery became solid in 2010, the amount declined to $13.3 billion.

4. ADB's lending modalities, especially policy-based lending, have proven to be useful for responding to the crisis. The quick-disbursing characteristics of policy-based lending are crucial for fast mobilization of resources to sustain development expenditures. ADB exercised flexibility in supporting DMCs during the crisis. The ceiling for conventional policy-based lending (20% under normal circumstances) was exceeded in 2009. Policy-based lending, including countercyclical support facility (CSF) loans, accounted for 26% (or $7.7 billion) of total ADB assistance during 2009–2010. For ADF, the Board approved a waiver to exceed its 22.5% ceiling.[2] However, the vast majority of ADB's operations were directed toward investment lending.

5. The sense of urgency also enabled ADB to seize the opportunity to push for structural reforms. This was important in low-income countries (LICs) where there was a strong need to advance structural reforms, as was the case for the Economic Support Program for Tonga and the Social Sector Support Program for Mongolia, both of which were financed by the ADF.[3]

6. Expanding the volume of crisis response financing is only one part of ADB's approach. Increasing efficiency is another. ADB modified its procedures and requirements to speed up processing. It reduced the average processing time to 14 months in 2009, much shorter than the historical average of 2 years. Policy-based lending was processed at a shorter time of 8 months on average, compared to 16 months for projects. These actions showed ADB's readiness and capacity for making quick changes to the organization, which DMCs appreciated.[4]

2. Specific Crisis Assistance Modalities

7. Besides using its regular products for crisis-response purposes, ADB also created specific modalities to respond to the crisis.

8. **Countercyclical Support Facility**. ADB established the $3 billion CSF in June 2009 as a time-bound budget support instrument.[5] Ordinary capital resources (OCR) borrowing countries are eligible to access the CSF, including blend countries which are also eligible for ADF financing. The CSF supports DMCs' countercyclical development expenditures to sustain aggregate demand and growth. ADB required that its assistance, as much as possible, be used to improve social protection for the unemployed, the poor, and other vulnerable groups. A total of $2.5 billion was disbursed to five DMCs, accounting for 23.6% of ADB's entire sovereign loans approved in 2009. Bangladesh, Indonesia, Kazakhstan, the Philippines, and Viet Nam each borrowed $500 million from the facility. The timely processing of the CSF enabled substantial resource mobilization for OCR and blend borrowers.

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2 ADB. 2009. *Proposed Waiver of the Asian Development Fund Program Lending Limit for 2007–2009.* Manila; and ADB. 2010. *Proposed Waiver of the Asian Development Fund Program Lending Limit for 2008–2010.* Manila. The program lending volume rose sharply in 2009. Because of the averaging effect of the program lending approvals across years, the indicative 3-year moving average exceeded the ceiling despite relatively modest lending levels in preceding and succeeding years.

3 ADB. 2009. *Report and Recommendation of the President to the Board of Directors on the Proposed Asian Development Fund Grant Kingdom of Tonga: Economic Support Program.* Manila; and ADB. 2009. *Report and Recommendation of the President to the Board of Directors on the Proposed Asian Development Fund Loan and Grant and Technical Assistance Grant of Mongolia: Social Sectors Support Program.* Manila.

4 ADB. 2011. *Special Evaluation Study: Real-time Evaluation of Asian Development Bank's Response to the Global Economic Crisis of 2008–2009.* Manila.

5 ADB. 2009. *Enhancing ADB's Response to the Global Economic Crisis—Establishing the Countercyclical Support Facility*. Manila. pp. 18–19.

9. One defining feature of the CSF is that it does not require conditions on structural reforms. This reflects critical lessons learned from the Asian financial crisis in 1997–1998: (i) once it happens, a crisis requires macroeconomic resolutions; structural reforms have little immediate relevance (and are possibly counterproductive); and (ii) a decline in aggregate demand needs to be responded to with countercyclical, not pro-cyclical, macroeconomic policy. Because of the absence of the need to negotiate unrelated medium-term structural reforms and abbreviated business processes, the CSF was processed promptly: the time between receipt of the official requests and ADB's approval averaged only 83 days.

10. The pricing of the CSF is higher than standard OCR loans, and its maturity shorter.[6] These features enabled ADB to expand its lending within the capital adequacy framework as measured by the pre-shock equity-to-loan ratio.[7] By setting the spread of 200 basis points (bps) over the London interbank offered rate (higher than the 20 bps applicable to conventional loans from OCR, while lower than the 400 bps applicable to special program lending established in 1999 mainly to cope with the balance-of-payments crisis)[8] and shorter maturity of 5 years (rather than 15 years applicable for standard program lending), the CSF generated additional resources without hindering ADB's risk-bearing capacity. Capital headroom, although tending to deplete as a result of rapid loan growth prior to the crisis, was adequate in the short term. A commitment charge was also included as an incentive for quick utilization in line with the countercyclical mandate.

11. The CSF expired as scheduled at the end of 2010. However, the Board approved the CSF as a lending modality for dealing with crisis through the review of policy-based lending in July 2011, ending its transitory nature.

12. **Trade Finance Program**. The Trade Finance Program (TFP) was originally approved in 2003 for $150 million. Recognizing that trade was a major channel for transmitting economic shocks to developing Asia, in March 2009, ADB raised the TFP's exposure limit from $150 million to $1 billion to improve access to trade finance for DMCs. The TFP provides guarantees and loans through banks to support trade.

13. The TFP was very successful in responding quickly and effectively to crisis needs. It supported significant volumes of trade in developing Asia ($5 billion during the crisis period), mobilized risk mitigation resources ($3 billion), and enabled trade credit lines to remain in place during the crisis. It provided liquidity to local banks ($54 million in 469 pre-export loans) and helped develop local banks in the targeted countries (101 issuing banks). The TFP especially aimed to provide greater access to small and medium-sized enterprises (SMEs), which tend to have a low credit standing and greater vulnerability to a decline in demand. During 2009 and 2010, the TFP supported 540 SMEs, constituting 44% of its portfolio (with 612 SME transactions completed).

14. While access to the TFP is open to all ADB DMCs and their banks, there is a preference for banks from smaller countries of groups A and B, and smaller banks in larger countries.

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[6] At the time of the crisis, ADB's credit quality, while lowered, was not affected significantly as the credit condition of sovereign members in the region was generally sound. ADB's nonsovereign exposure was still a small portion of the total outstanding portfolio.

[7] In contrast, capital of the International Finance Corporation was constrained as a result of equity write-downs, an increase in nonperforming loans, and transfers to the International Development Association (IDA) from surplus. IDA's funding envelope determined before the crisis enabled a lesser increase. The assessment left an open issue on balancing the immediate crisis response and long-term financial capacity.

[8] ADB. 1999. *Review of ADB's Program Lending Policies*. Manila.

Transactions supported by the TPF in group B countries amounted to about $1.9 billion in 2008 and $2.3 billion in 2010. Transactions supported in group A countries totaled $11.4 million in 2009 and $24.5 million in 2010. In 2009, the TFP did not support transactions in group C countries. By 2010, TFP transactions in group C countries increased to $476.2 million (including cofinancing). Over 90% of the transactions were in group A and B countries in 2010 and 2011.

15. The TFP attracted an increasing amount of cofinancing: it was about $1.3 billion in 2009, and this increased to about $1.6 billion in 2010. The strong growth in cofinancing continued, reaching $2.4 billion in 2011.

16. In addition to responding to the crisis, the TFP has created leverage for additional engagements with DMCs in financial sector development, SMEs, and microfinance. The TFP has helped initiate or strengthen ADB's financial relationships with 93 DMC banks, mostly in groups A and B countries. The TFP won four internationally recognized awards, including Best Development Bank in Trade and Best Asia-Pacific Development Finance Institution. It is being replicated by the African Development Bank.

17. **Enhanced assistance to ADF countries***.* To help poorer countries with weak fiscal capacity, ADB approved an additional $400 million (SDR270 million) ADF commitment authority to help ADF-only countries.[9] This additional liquidity came from the prudential minimum liquidity (PML) framework. These funds could be released because some ADF borrowers exercised their legacy loan conversion option to special drawing rights (SDR), reducing the required provision for foreign exchange volatility. Accordingly, the $400 million of the original $750 million earmarked as part of the PML to absorb currency risks on reflows in non-SDR currencies for legacy loans—could be released and added to the commitment authority for ADF X. The remaining balance in the PML is considered adequate to safeguard the ADF's financial integrity. The $400 million ADF excess liquidity significantly augmented resources to ADF-only countries, accounting for 12.8% of ADF operations for 2009. To support ADF-eligible borrowers' stimulus and social protection packages, ADB also allowed front-loading of up to 100% of their biennial (2009–2010) ADF allocation.

18. The CSF and ADF excess liquidity supported developing Asia's strong recovery since the second quarter of 2009.[10] Such innovative approaches provided much needed liquidity to DMCs, while quickly bringing the reflows back to ADB's balance sheet.

19. While ADB demonstrated great responsiveness in quickly establishing the specific crisis response facilities, it still took time for ADB to set up these facilities during the crisis. The CSF and ADF excess liquidity, both approved by the Board in June 2009, did not exist when the impact of the crisis began to materialize by the first quarter of 2009. Having permanent crisis response mobilization instruments would have better prepared ADB to help mitigate the worst of the crisis immediately upon a DMC's request. Learning from this lesson, ADB approved the CSF as one of the lending instruments in July 2011. However, no similar instruments exist for ADF countries.

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9 ADB. 2009. *Crisis Response of ADF—Allocation of Additional Liquidity.* Manila.

10 History shows that premature withdrawal of expansionary macroeconomic policy was the cause of prolonged economic downturns in other parts of the world, including the Great Depression in the 1930s. C. Romer. 2009. The Lessons of 1937. *The Economist*. 18 June. ADB's countercyclical actions in the recovery phase of the crisis reflect this important lesson from history.

C. Development Partnership

20. ADB strengthened its development partnerships in response to the crisis. It stepped up cofinancing efforts to keep up with the mounting financing needs. Overall cofinancing more than doubled from $647 million in 2007 to $1.56 billion in 2008, and further to $3.32 billion in 2009. From 2007 to 2009, the number of development partners that worked with ADB on project cofinancing increased from 10 to 23. Apart from formal cofinancing, all of the policy-based lending operations were prepared in consultation with the International Monetary Fund (IMF). In the Pacific, key development partners committed to support a common government-led matrix of policy actions under the economic recovery support programs in Samoa and Solomon Islands. The TFP was particularly effective in mobilizing cofinancing (para. 15).

D. Knowledge and Advice

21. ADB produced numerous knowledge products on the crisis. It conducted seminars, workshops, and conferences to disseminate information on the crisis and policies to combat it. These brought together DMCs across the region to share country and global experiences to minimize adverse effects. ADB also provided technical assistance (TA) grants to many DMCs to produce crisis-based knowledge products and services.

22. ADB's two key quarterly periodical publications—*Asian Development Outlook* (and its *Update*), and *Asia Economic Monitor*—became important vehicles for regularly disseminating knowledge and analysis concerning the crisis.[11] For example, the *Asian Development Outlook 2007* debunked the decoupling hypothesis. It showed that exports of developing Asia remained closely linked with retail sales in developed countries, and it cautioned members about the likely adverse impact on the region of a hard landing in G3 economies.[12] Notably, this was the first warning to Asian countries from an international organization about the risk of a US slowdown. The December 2007 *Asia Economic Monitor* analyzed the risks to the region from the financial market turbulence, and made several policy recommendations.[13]

23. Some knowledge and advisory work specifically centered on ADF countries. For example, a capacity development TA for Cambodia was designed to improve the government's ability to formulate, coordinate, implement, and monitor key policies and strategies to promote sustainable economic development. [14] In the Pacific, ADB started the quarterly publication *Pacific Economic Monitor* in May 2009 to analyze the economic situation, assess risks and scenarios, and discuss economic management issues. ADB supported the preparation of two highly relevant operational framework papers for improving surveillance in Bhutan and the Maldives. In addition, ADB produced special publications on the crisis to brief DMCs in the Pacific.[15] ADB also coordinated meetings of funding agencies active in the Pacific countries to discuss crisis-related assistance. ADB carried out studies in seven countries—Afghanistan, Armenia, Georgia, the Kyrgyz Republic, Nepal, Sri Lanka, and Tajikistan—to examine the role

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[11] The *Asia Economic Monitor* is published in July and December. The *Asian Development Outlook* is published in April and its *Update* in September.
[12] ADB. 2007. *Asian Development Outlook 2007.* Manila.
[13] ADB. 2007. *Asia Economic Monitor 2007*. Manila. December.
[14] ADB. 2009. *Technical Assistance to the Kingdom of Cambodia for Capacity Development for National Economic Policy Analysis and Development Management, Phase III (Cofinanced by the People's Republic of China Regional Cooperation and Poverty Reduction Fund).* Manila.
[15] ADB. 2009. *Taking the Helm: A Policy Brief on a Response to the Global Economic Crisis*. Manila; and ADB. 2008. *Navigating the Global Storm: A Policy Brief on the Global Financial Crisis.* Manila.

of central banks in LICs.[16] These knowledge products works are available to the public. Their findings, lessons, and recommendations provide valuable inputs for DMC decision makers.

24. Overall, ADB played an important role by helping to promote developing Asia's coordinated fiscal response through its policy dialogue and by taking part in the stimulus packages (footnote 1 in the Appendix). ADB's overall crisis-related assistance was successful in achieving its objectives. ADB financing focused primarily on (i) ensuring the availability of trade finance, and (ii) safety nets to protect the poor and most vulnerable groups. Such assistance helped DMCs sustain fiscal stimulus until the V-shaped recovery path was confirmed in 2010, contributing to sustaining growth and reducing poverty.

25. Tables A.1 to A.4 present the impact of the 2008–2009 crisis on developing Asia, and ADB's crisis-related operations.

[16] S. Akhtar, H. Lorie, and A. Petersend. 2009. *Effectiveness of Central Banks and their Role in the Global Financial Crisis: Case of Selected Economies.* Manila: ADB.

Table A.1: Severity of Impact of the 2008–2009 Global Crisis Based on GDP Growth Rate

Developing Member Countries	Severity of Impact	GDP Growth Rate (%) 2005	2006	2007	2008	2009	2010	Mean GDP Growth Rate (%) 2005–2007	2008–2009
Group A									
Afghanistan	LA	16.1	8.2	14.2	3.4	20.4	8.2	12.8	11.9
Bhutan	LA	7.5	7.8	12.6	10.8	5.7	7.0	9.3	8.3
Cambodia	SA	13.3	10.8	10.2	6.7	0.1	6.3	11.4	3.4
Kiribati	SA	3.9	1.9	0.4	(1.1)	(0.7)	0.5	2.1	(0.9)
Kyrgyz Republic	LA	(0.2)	3.1	8.5	8.4	2.9	(1.4)	3.8	5.7
Lao PDR	LA	6.8	8.1	7.9	7.2	7.3	7.5	7.6	7.3
Maldives	SA	(4.6)	18.0	7.2	6.2	(2.3)	4.8	6.9	2.0
Nepal	LA	3.1	3.7	2.8	5.8	3.8	4.0	3.2	4.8
Samoa	SA	5.4	0.3	6.6	(3.2)	(1.7)	0.0	4.1	(2.5)
Solomon Islands	SA	5.4	6.9	10.3	7.3	(1.2)	4.0	7.5	3.1
Tajikistan	MA	6.7	7.0	7.8	7.9	3.4	6.5	7.2	5.7
Tonga	SA	(1.0)	0.6	(1.4)	2.0	(0.4)	(1.2)	(0.6)	0.8
Tuvalu	SA	(4.1)	6.6	4.9	1.3	(1.7)	0.0	2.5	(0.2)
Group B									
Armenia	SA	13.9	13.2	13.7	6.9	(14.2)	2.6	13.6	(3.7)
Azerbaijan	SA	26.4	34.5	25.1	10.8	9.3	5.0	28.7	10.1
Bangladesh	LA	6.0	6.6	6.4	6.2	5.7	5.8	6.3	6.0
Georgia	SA	9.6	9.4	12.3	2.3	(3.8)	6.4	10.4	(0.8)
India	MA	9.5	9.7	9.2	6.7	8.0	8.6	9.5	7.4
Marshall Islands	SA	0.7	1.6	3.5	(1.6)	(2.1)	0.5	1.9	(1.9)
FSM	SA	3.0	(0.4)	(2.0)	(2.3)	0.5	0.5	0.2	(0.9)
Mongolia	SA	7.3	8.6	10.2	8.9	(1.3)	6.1	8.7	3.8
Pakistan	SA	9.0	5.8	6.8	3.7	1.2	4.1	7.2	2.5
Palau	SA	5.9	(3.7)	(0.5)	(4.9)	(2.1)	2.0	0.6	(3.5)
Papua New Guinea	LA	3.9	2.3	7.2	6.6	5.5	7.1	4.5	6.1
Sri Lanka	MA	6.2	7.7	6.8	6.0	3.5	7.6	6.9	4.8
Timor-Leste	LA	6.2	(5.9)	9.1	12.2	12.7	9.5	3.1	12.5
Uzbekistan	LA	7.0	7.2	9.5	9.0	8.1	8.5	7.9	8.6
Viet Nam	MA	8.4	8.2	8.5	6.3	5.3	6.8	8.4	5.8
Group C									
Cook Islands	SA	0.0	0.7	9.5	(1.2)	(0.1)	0.5	3.4	(0.7)
PRC	MA	10.4	12.7	14.2	9.6	9.2	10.3	12.4	9.4
Fiji	SA	0.6	1.9	(0.9)	0.2	(3.0)	0.1	0.5	(1.4)
Indonesia	LA	5.7	5.5	6.3	6.0	4.6	6.1	5.8	5.3
Kazakhstan	SA	9.7	10.7	8.9	3.3	1.2	7.0	9.8	2.3
Philippines	SA	5.0	5.3	7.1	3.7	1.1	7.3	5.8	2.4
Thailand	SA	4.6	5.1	5.0	2.5	(2.3)	7.8	4.9	0.1

( ) = negative, ADB = Asian Development Bank, FSM = Federated States of Micronesia, GDP = gross domestic product, Lao PDR = Lao People's Democratic Republic, PRC = People's Republic of China.
Note: SA = severely affected (more than 50% decline in average GDP growth rates between 2005–2007 and 2008–2009); MA = moderately affected (20%–50% decline in the growth rate); LA = least affected (less than 20%).
Source: ADB. 2011. *Special Evaluation Study: Real-time Evaluation of Asian Development Bank's Response to the Global Economic Crisis of 2008–2009.* Manila. (Appendix 2)

Table A.2: Assistance to Borrowing Developing Member Countries
($ million)

Developing Member Countries	Severity of Impact	2007	2008	2009	2010
Group A					
Afghanistan	LA	189	266	336	352
Bhutan	LA	22	106	39	28
Cambodia	SA	74	91	180	161
Kiribati	SA	0	0	0	12
Kyrgyz Republic	LA	69	65	80	168
Lao PDR	LA	60	12	127	152
Maldives	SA	5	8	37	0
Nepal	LA	111	159	345	274
Samoa	SA	56	5	1	16
Solomon Islands	SA	9	19	29	18
Tajikistan	MA	95	61	62	122
Tonga	SA	0	11	10	1
Tuvalu	SA	0	3	0	0
Group B					
Armenia	SA	67	17	140	170
Azerbaijan	SA	200	215	75	0
Bangladesh	LA	966	611	1,086	1,249
Georgia	SA	0	110	229	335
India	MA	1,232	1,778	1,713	2,126
Marshall Islands	SA	0	0	0	12
FSM	SA	0	1	0	0
Mongolia	SA	20	82	94	103
Pakistan	SA	1,527	1,090	940	515
Palau	SA	0	0	0	16
Papua New Guinea	LA	102	100	122	76
Sri Lanka	MA	448	177	344	461
Timor-Leste	LA	6	0	49	0
Uzbekistan	LA	126	135	60	655
Viet Nam	MA	1,468	770	1,929	1,101
Group C					
Cook Islands	SA	0	16	10	1
PRC	MA	1,147	1,532	1,772	1,339
Fiji	SA	0	0	67	0
Indonesia	LA	950	1,010	2,189	493
Kazakhstan	SA	0	340	687	606
Philippines	SA	593	621	1,061	600
Thailand	SA	0	0	77	302

FSM = Federated States of Micronesia, Lao PDR = Lao People's Democratic Republic, PRC = People's Republic of China.
Notes:
1. Assistance includes all sovereign loans and grants from ordinary capital resources, Asian Development Fund, and other Special Funds resources; excludes regional loans and grants.
2. SA = severely affected (more than 50% decline in average gross domestic product growth rates between 2005–2007 and 2008–2009); MA = moderately affected (20%–50% decline in the growth rate); LA = least affected (less than 20%).
Source: ADB. 2011. *Special Evaluation Study: Real-time Evaluation of Asian Development Bank's Response to the Global Economic Crisis of 2008–2009.* Manila. (Appendix 4)

Table A.3: Total Disbursements to Borrowing Developing Member Countries
($ million)

Developing Member Countries	Severity of Impact	2007	2008	2009	2010
Group A					
Afghanistan	LA	146	89	146	246
Bhutan	LA	9	7	36	59
Cambodia	SA	64	145	83	71
Kiribati	SA	0	0	0	0
Kyrgyz Republic	LA	33	49	45	28
Lao PDR	LA	95	63	70	59
Maldives	SA	10	7	12	29
Nepal	LA	102	133	200	111
Samoa	SA	1	3	10	28
Solomon Islands	SA	4	0	1	10
Tajikistan	SA	38	52	111	50
Tonga	SA	0	1	1	6
Tuvalu	SA	1	1	2	0
Group B					
Armenia	SA	0	8	119	47
Azerbaijan	SA	59	21	59	47
Bangladesh	LA	346	617	1,069	471
Georgia	SA	25	70	111	163
India	SA	1,571	1,702	1,572	1,863
Marshall Islands	SA	0	0	0	10
FSM	SA	4	4	1	1
Mongolia	SA	24	35	80	33
Pakistan	SA	992	1,939	1,116	908
Palau	SA	0	1	2	3
Papua New Guinea	LA	29	21	38	32
Sri Lanka	SA	169	302	294	335
Timor-Leste	LA	0	5	3	2
Uzbekistan	LA	51	49	126	82
Viet Nam	SA	233	275	1,129	414
Group C					
Cook Islands	SA	0	1	0	11
PRC	MA	1,260	1,358	1,500	1,472
Fiji	SA	13	10	5	17
Indonesia	LA	1,324	1,061	799	1,133
Kazakhstan	SA	51	8	543	99
Philippines	SA	419	853	1,320	114
Thailand	SA	3	0	3	32

FSM = Federated States of Micronesia, Lao PDR = Lao People's Democratic Republic, PRC = People's Republic of China.
Notes:
1. Disbursements include all loans and grants from ordinary capital resources, Asian Development Fund, and other Special Fund resources; exclude regional loans and grants.
2. SA = severely affected (more than 50% decline in average gross domestic product growth rates between 2005–2007 and 2008–2009); MA = moderately affected (20%–50% decline in the growth rate); LA = least affected (less than 20%).
Source: ADB. 2011. *Special Evaluation Study: Real-time Evaluation of Asian Development Bank's Response to the Global Economic Crisis of 2008–2009.* Manila. (Appendix 4)

Table A.4: ADB'S 2009–2010 Crisis Response Operations

	Country	Loan Number	Project Name	Type/ Modality	Fund Type	Approval Date	Total Amount ($ million)
Group A							
1	LAO	0164	Private Sector and Small and Medium-sized Enterprises Development – Subprogram 2	Program	ADF	01 Oct 09	15.0
2	MLD	2597	Economic Recovery Program	Program	ADF	9 Dec 09	35.0
3	SOL	0175	Second Road Improvement Project	Project	ADF	12 Nov 09	15.0
4	SOL	0197	Economic Recovery Support Program (Subprogram 1)	Program	ADF	16 Mar 10	5.0
5	TAJ	0152	Crisis Recovery Support Program	Program	ADF	06 Jul 09	40.0
6	TON	0185	Economic Support Program	Program	ADF	03 Dec 09	10.0
Group B							
7	ARM	2529/ 2530	Crisis Recovery Support Program	Program	ADF	06 Jul 09	80.0
8	BAN	2569	Countercyclical Support Facility	Program	OCR	13 Oct 09	500.0
9	GEO	2531/ 2532	Growth Recovery Support Program	Program	ADF	06 Jul 09	80.0
10	GEO	2664	Social Services Delivery Program	Program	OCR	21 Sep 10	100.0
11	IND	2617	Micro, Small, and Medium Enterprise Development Project	Project	OCR	26 Feb 10	50.0
12	MON	2523	Social Sectors Support Program	Program	ADF	24 Jun 09	43.1
13	MON	0158	Education for the Poor: Financial Crisis Response Project	Project	ADF	18 Sep 09	17.0
14	PAK	2524/ 2525	Accelerating Economic Transformation Program (Subprogram 2)	Program	ADF/ OCR	25 Jun 09	500.0
15	SRI	2626	Conflict-Affected Region Emergency Project	Project	OCR	15 Apr 10	150.0
16	TIM	0180	Road Network Development Sector Project	Project	ADF	20 Nov 09	46.0
17	VIE	2544	Viet Nam Countercyclical Support	Program	OCR	15 Sep 09	500.0
Group C							
18	COO	2565	Economic Recovery Support Program (Subprogram 1)	Program	OCR	13 Oct 09	10.0
19	INO	2521	Public Expenditure Support Facility Program	Program	OCR	03 Jun 09	1,000.0
20	INO	2563	Indonesia Countercyclical Support	Program	OCR	07 Oct 09	500.0
21	INO	2575	Rural Infrastructure Support to the PNPM Mandiri Project II	Project	OCR	12 Nov 09	84.2
22	KAZ	2543	Kazakhstan Countercyclical Support Loan	Program	OCR	10 Sep 09	500.0
23	PHI	2538	Philippines Countercyclical Support Loan	Program	OCR	24 Aug 09	500.0
24	PHI	2545	Development Policy Support Program - Subprogram 3	Program	OCR	15 Sep 09	250.0
			Total				**5,030.3**

ADB = Asian Development Bank, ADF = Asian Development Fund, ARM = Armenia, BAN = Bangladesh, COO = Cook Islands, GEO = Georgia, IND = India, INO = Indonesia, KAZ = Kazakhstan, LAO = Lao People's Democratic Republic, MLD = Maldives, MON = Mongolia, OCR = ordinary capital resources, PAK = Pakistan, PHI = the Philippines, SOL = Solomon Islands, SRI = Sri Lanka, TAJ = Tajikistan, TIM = Timor-Leste, TON = Tonga, VIE = Viet Nam.

Source: Prepared from the list of crisis response loans identified by ADB at the ADB website. Advance Project Search. http://www.adb.org/projects/summaries.asp.