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on the
Transfer of Real Resources to Developing Countries)



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Statement by

Mr. Haruhiko Kuroda
President
Asian Development Bank

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at the 77th Meeting of the Development Committee

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On behalf of the Asian Development Bank (ADB), I wish to express our appreciation for the invitation to attend the 77th meeting of the Development Committee as an Observer.

I. Regional Outlook

In 2007, developing Asia and the Pacific region recorded the highest average growth in almost two decades—8.7%. This growth was led by the People's Republic of China (PRC), which expanded by 11.4%, its fastest rate in 13 years. Growth of the region in 2008 is expected to remain at a robust 7.6%, only slightly below the past 5 years' average, impacted by a coincident slowdown in the United States, Europe, and Japan; surging food and fuel prices; and a credit crisis in global financial hubs. Prospects will also depend on the extent to which Asia's real exchange rates appreciate, as well as the region's ability to tap the potential of overseas markets especially if there is any significant rise in trade or investment protectionism. Nevertheless, sound policy frameworks and the productivity growth associated with the region's modernization and structural transformation should continue to sustain strong growth.

Inflation is perhaps the most potent threat facing the region today. In 2007, there was a 25-year inflation high of 6.6% in Singapore and an 11-year high of 8.7% in PRC and 15.7% in Viet Nam. Excluding food and energy prices, core inflation is also on the rise across much of the region. In 2008, inflation is expected to accelerate further. Inflation is anticipated to be the highest in Central Asia. Taming these inflation expectations and reining in fiscal deficits that are being bloated by fuel, food, and power subsidies are challenges facing a range of countries in the region. Some small economies that are both net food and fuel importers could see their situations deteriorate. Furthermore, fiscal prudence is under threat from rising subsidy bills on fuel, fertilizers and staple foods, as in India and Bangladesh.

Coordinated policy responses to mitigate price pressures on fuel and food commodities may be required, and monetary and fiscal policy could provide further support should the external environment continue to deteriorate. However, it is important that the policy response be country-specific, and authorities in East Asia should be cautious in using fiscal stimulus, as many emerging economies are still in the process of strengthening their fiscal framework for the national economy.

II. Addressing Poverty in Low Income Countries of the Asia and the Pacific

More than 600 million people in the Asia and Pacific region still live in absolute poverty, defined as less than \$1 a day, and almost half of the world's absolute poor live in South Asia alone. One of every two individuals in the region—or 1.7 billion people—remains poor, as measured against the \$2-a-day benchmark. In developing countries eligible for funding from the Asian Development Fund (ADF), 100 million people—15% of the population—still live in absolute poverty, and almost 400 million people—almost 60% of the population—subsist on less than \$2 a day.

ADF is a major instrument of concessional financing that has supported equitable and sustainable development for the region since 1973. Funded by ADB's donor member countries, ADF offers loans at

very low interest rates as well as grants to help reduce poverty in ADB's poorest borrowing countries. ADF has contributed significantly to Millennium Development Goal (MDG) outcomes through a large volume of outputs delivered in several sectors. For MDG 1 (eradicating extreme poverty and hunger), ADF operations in transport, energy, and rural infrastructure have helped to foster growth and reduce poverty, especially in rural areas. In the past decade, ADF financed the construction or rehabilitation of more than 40,000 kilometers of roads (including rural roads). This has brought tangible benefits to the poor, including higher household incomes through better access to markets; higher productivity, and lower commodity prices as a result of the greater availability of goods and lower transport costs; and better access of the poor to basic social services, such as education and health services. In addition, for MDG 7 (ensure environmental sustainability), ADF has provided more than 200,000 new household water connections and over 10,000 kilometers of drainage and sewage systems during the same period. Better access to clean water and sanitation especially benefits women, as it enables more time to engage in income-earning opportunities or receive a formal education. However, countries in the region are unlikely to meet many of the MDG targets including those on gender parity in primary and tertiary education. Support for education will continue to be an important priority in ADF operations.

ADB is in the midst of negotiations with donors on replenishing ADF (ADF X), as the region still requires large amount of concessional resources to end poverty. ADF X, will help countries continue to strive toward many development goals, including improving the business climate and developing the private sector, making progress on governance and anticorruption, and combating communicable diseases.

ADF, together with other special funds and trust funds—are expected to provide the largest amount of ADB financing to fragile countries and situations, or those countries and areas with generally weak policy regimes, economic vulnerability, and weak institutions. In these countries, often small sized, ADF operations emphasize partnerships, innovation and flexibility, country ownership, and sound diagnostics. ADB is aligning its development assistance with other funding agencies at strategic and project levels, and continues to pursue deeper, more flexible, and longer engagement in capacity enhancement and institutional development, sometimes with legitimate non-state actors.

ADB gives special regard to the needs of the smaller or less developed member countries in the region. Countries in the Pacific are particularly vulnerable to natural disasters and external shocks, and disadvantaged due to their small size and remote location. They also have some of the greatest needs in terms of capacity development. Recognizing this, the Performance Based Allocation system in ADF has established a separate pool for the Pacific countries.

III. The Environment and Climate Change

ADB recognizes that the poorest people in the poorest countries will suffer most from climate change, manifested directly in heat waves, rising sea levels, disrupted rainfall patterns, and more frequent and severe storms, and indirectly in consequent crop failures, floods, and greater disease exposure. Therefore, as part of the global effort to mitigate climate change, ADB is assisting the region in moving its economies onto low-carbon growth paths by improving energy efficiency, expanding the use of clean energy sources, reducing fugitive greenhouse gas emissions, and arresting deforestation. ADB aims at increasing its lending for energy efficiency projects significantly, at least \$1 billion per year by 2008. ADB also aids countries in adapting to the unavoidable impacts of climate change—including those related to health—through national and municipal planning, investments in defensive measures, support for insurance and other risk-sharing instruments, and “climate-proofing” projects. ADB also assists with sustainable management of forest and other natural resources for provision of clean water supplies, protection of biological diversity, and sequestration of carbon from the atmosphere to offset greenhouse gas emissions.

Private sector investment will constitute the largest share of investment and financial flows required to address climate change in the region. However, there is a priority need for ADB to scale-up direct investments and public-private-partnership opportunities to address climate change. ADB is helping its developing member countries create an investment environment conducive to private investment that can reduce GHG emissions. For example,

- to address the inadequate supply of capital that can be accessed by small and medium-sized clean energy companies in Asia, ADB plans to invest \$100 million in up to five private sector funds specializing in the clean energy sector.
- in partnership with UNEP and the Global Environment Facility, the Seed Capital Assistance Facility for renewable energy and energy efficiency projects will provide grants for technical assistance to private equity fund managers and entrepreneurs to develop sustainable clean energy funds and financing for the early stages of such projects.

Through ADB's Carbon Market Initiative, our developing member countries receive technical assistance and financing during the project development stage; afterwards, they deliver carbon credits once the projects are operational. In addition to the existing \$150 million Asia Pacific Carbon Fund, we are proposing a Future Carbon Fund, which will pay upfront for post-2012 carbon credits to be generated by ADB-assisted projects. We are also striving to make several critical sectors benefit from carbon trading schemes – for example public transportation projects (e.g., bus rapid transit) and small energy efficiency projects (e.g., compact fluorescent lights).

IV. ADB's Long Term Strategic Framework (2008-2020)

Strategy 2020. On 7 April, ADB's Board of Directors approved the Bank's new long-term strategic framework for 2008–2020, known as Strategy 2020. This strategy reshapes ADB as a more effective and innovative development institution in support of its vision of an Asia and Pacific region free of poverty. Under Strategy 2020, ADB will focus on three interconnected strategic agendas: inclusive growth, environmentally sustainable growth, and regional integration. In addition, it will emphasize five drivers of change: private sector development, good governance and capacity building, gender equity, knowledge, and partnerships in all of its operations. Under Strategy 2020, ADB will become a more focused, selective institution. By 2012, 80% of its lending will be in five core operational areas: infrastructure, the environment, regional integration, financial sector development, and education. These are areas in which ADB can be most relevant and have the most impact in the region.

ADB's development strategy is anchored in the concept of inclusive growth which has two mutually reinforcing elements. First, high, sustainable growth creates and expands economic opportunities. Second, broader access to these opportunities ensures that all members of society can participate in and benefit from growth. ADB's support for achieving inclusive growth includes investment in infrastructure to connect the poor to markets and to increase their access to basic productive assets such as credit. ADB also supports investment in education and essential public services, such as water and sanitation, which particularly benefit the poor and women. Such investments provide opportunities for all to improve their standards of living, thereby contributing to economic growth, poverty reduction, and the mitigation of extreme inequalities.

Only growth that is environmentally sustainable can eliminate poverty, since many of the poor depend on natural resources for their livelihoods. To realize environmentally sustainable growth, ADB

supports the use of environmentally friendly technologies, adoption of environmental safeguard measures, and establishment of institutional capacities to strengthen their enforcement. Through regional cooperation, ADB promotes effective approaches and solutions and facilitates transfer of knowledge and technologies on environmental management. In addition, as discussed above, ADB is further strengthening initiatives for mitigating climate change on account of Asia's rising contribution to carbon dioxide emissions, and for adaptation on account of vulnerability of many countries in the region to the consequences of climate change.

Paralleling its support for national programs that reduce poverty and raise living standards, ADB will step up its assistance for regional cooperation and integration. ADB will assist DMCs to realize growth through integration and closer links with their neighbors. Larger regional markets for goods, services, and capital will raise the efficiency of resource use and enhance the region's global competitiveness. Closer regional coordination will elevate the overall quality of policy and reinforce the abilities of countries and regions to respond more effectively to sudden or unexpected changes in economic circumstances. This scaled-up effort comes at an opportune time as leaders in the region are increasingly committed to greater economic integration, open regionalism, and cooperation on a range of transboundary issues.

It is expected that ADB's lending portfolio will change and be more heavily weighted in its new strategic and operational areas, and that it will differ from ADB's current portfolio of loans in four respects: ADB's operations will increasingly be concentrated on the five core operational areas and comprise 80% of its total annual approvals by 2012; ADB's support for the development of the region's private sector will increase significantly, both in the number of ADB-financed projects and in its share of ADB's annual operations with a target of 50% by 2020; ADB will progressively increase its assistance for environmentally sustainable development and those investments will represent a significant share of ADB operations by 2012; and ADB will progressively raise its aggregate public and private lending at the regional and subregional level reaching at least 30% of overall operations by 2020.

ADB considers it critical to the successful implementation of Strategy 2020 that its management monitors, measures, and reports on the Bank's development outputs and outcomes. ADB is developing a new results framework for this purpose. Based on this results framework, ADB will assess and report on progress in implementing Strategy 2020 through its annual Development Effectiveness Review.