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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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**President**  
**Asian Development Bank**  
**at the 78<sup>th</sup> Meeting of the Development Committee**

**12 October 2008**  
**Washington, D.C.**

On behalf of the Asian Development Bank (ADB), I wish to express our appreciation for the invitation to attend the 78th meeting of the Development Committee as an Observer.

**I. Regional Outlook**

The economic outlook of developing Asia and the Pacific<sup>1</sup> has been buffeted by the global financial crisis in 2008 and face tougher headwinds at home. The region and the Asian Development Bank (ADB) must address the urgent issues of financial turmoil, inflation, and rising food prices while not losing sight of the long-term objectives of achieving the Millennium Development Goals (MDGs), spreading the benefits of growth more broadly, and making growth more energy efficient and environmentally sustainable. Regional growth will likely slow to 7.5% in 2008 and 7.2% in 2009, down from 9.0% in 2007, which marked the highest rate in almost two decades. This remarkable expansion was supported in part by years of accommodative monetary policies. Fueled by soaring commodity prices, inflation will surge to 7.8% in 2008 from 4.3% in 2007, before moderating to 6.0% next year. With the myth of decoupling now largely discounted, Asian economies see more risks and uncertainties ahead as growth slows in the U.S., Europe, and Japan. The crisis that began in the U.S. credit market has crossed to Asia, rattling investor confidence and causing large swings in equity markets. The risk premium is up sharply on Asia's dollar denominated offshore bonds, and capital can be expected to become harder to access for many of our developing member countries (DMCs).

Growth and inflation prospects vary across the region. Despite higher inflation, soft landing is predicted for East Asia, with its growth slowing to 8.0% and 7.7% in 2008 and 2009, respectively, from 9.6% in 2007. Weakening external demand and the impact of tightening policy has trimmed GDP growth in the People's Republic of China to 10.4% in the first half of 2008, and is forecast to decline slightly to 9.5% in 2009. In most Southeast Asian countries, curbing inflation will be the crucial macroeconomic challenge. While some primary commodity exporters, such as Malaysia, have benefited from higher commodity prices, double-digit inflation projected this year for Cambodia, Indonesia, the Lao People's Democratic Republic, the Philippines, and Viet Nam will dampen growth of this sub-region. South Asia's growth will also decelerate from 8.6% in 2007 to 7.1% in 2008 and to 6.7% in 2009. Inflation is forecast to more than double from 5.5% to 11.8%, and then recede to 9.2% in this three year period. With this economic outlook, South Asia will need to strengthen its macroeconomic management to rein in fiscal and current account deficits and to avoid a hard landing. This would be particularly true for India, with inflation expected to reach 11.5% this fiscal year, and its growth forecast to slow to 7.4% in 2008 and to 7.0% in 2009. Growth slowdown is underway also in Central Asia. Although hydrocarbon exporters are benefiting from commodity inflation, importers such as Kyrgyz Republic and Tajikistan have suffered from higher oil prices. Likewise, natural resource exports have bolstered Papua New Guinea's economic performance but about half the 14 economies in the Pacific sub-region are expected to grow more slowly or contract in 2008.

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<sup>1</sup> Developing Asia (and the Pacific) refers to 44 developing member countries of the Asian Development Bank.

Given the economic outlook, Governments and monetary authorities throughout the region must undertake corrective policy measures and shift their basic monetary stance in order to tame inflation and prevent major fiscal imbalances. Political realities may make policy changes difficult, particularly in view of their anticipated consequences to the society's poorest and most vulnerable. Despite looming risks and uncertainties, the region should be reassured of its fundamentally sound growth prospects and recognize that the sooner governments act the sooner developing Asia will return to its robust growth path and resume its record advances in the elimination of poverty.

## **II. Addressing the Challenges of Food Crisis, Financial Turmoil, and Climate Change and their Impact on Poverty**

### *Food Crisis*

The rapid rise in food prices can push tens of millions back into absolute poverty from which many were only recently lifted. Hundreds of millions more, already subsisting on less than \$1 a day, face even greater deprivation. A 10% spike in food prices increase the number of absolute poor by more than 7 million in Pakistan alone; a 20% rise doubles that figure. Given that about 60% of all spending in poor households of this region goes to food, higher food prices have an immediate impact on the most vulnerable. As a result, income and non-income inequalities will widen, and disparities between the region's DMCs will grow, with the hardest hit economies falling further behind. The governments face complex issues and difficult choices. On one hand tightening monetary policies and reducing subsidies can risk social and political stability, as growth slows and inevitable hardship follows. On the other hand however, swollen food and fertilizer subsidies strain public resources and fiscal budgets, undermining sound macroeconomic management. In Bangladesh, for example, food subsidies are expected to double in the current fiscal year to well over \$1.5 billion.

ADB is implementing both short- and long-range programs to address a problem that combines long-term structural factors such as rising oil and fertilizer prices, the loss of food crop acreage to biofuels, rising demand for grains from populations growing in both number and income, and a fall-off in agricultural investments, and short-term cyclical events like the weakening US dollar and the effects of bad weather on recent food crop production. ADB is providing up to \$500 million in immediate budgetary support to countries in greatest distress to alleviate their fiscal pressures and assist imports of food grains and agricultural inputs. To mitigate the immediate impacts of the crisis, ADB will engage in targeted interventions to protect food entitlements of the most vulnerable groups and income and livelihood programs for the poor. Support will also be extended to government efforts in providing smallholder farmers with critical inputs like seed and fertilizers. At the same time, ADB will target farm productivity and profitability gains through improved rural infrastructure and services, including rural roads and bridges, rural electrification, and water and irrigation services, in line with ADB's newly adopted long-term strategic framework 2008 – 2020 or Strategy 2020. It will support better access to rural finance and information and help enhance agricultural market infrastructure. More generally, one of Strategy 2020's three key agendas - inclusive growth - will seek to increase economic participation, productivity, and incomes of the people most affected by rising prices for basic needs.

### *Asia's Financial Systems*

Although Asia appears better positioned to withstand the immediate effects of the current financial turmoil, the magnitude of the global turbulence highlights the pressing need for central banks and regulators to assess underlying risks and build a cogent and proactive plan of action to better preserve regional financial stability. ADB's recent flagship study on *Emerging Asian Regionalism* identified weaknesses in national financial systems, differences in national financial regulations, and unevenness in market openness and capital market liberalization. There is also a wide variance in financial system

development among Asian economies. For example, while financial centers like Hong Kong, Japan, and Singapore have adopted Basel II standards, other countries are only just beginning to develop their most basic banking systems and capital markets. Under Strategy 2020, ADB supports both national and regional financial sector development as one of its five core operational areas. Emphasis is placed on improving legal and regulatory frameworks, developing regulatory capacity, bringing accounting and auditing standards up to international levels, upgrading information disclosure, and establishing anti-money laundering regimes.

Bank finance and equity markets still dominate the financial sector in Asia though progress is underway to deepen the debt market. For instance, ASEAN+3 has established a new Asian Bond Markets Initiative roadmap, designed to increase issuance and demand for local currency bonds, and to improve the regional regulatory framework and market infrastructure. ADB is supporting such initiatives by issuing local currency bonds in seven Asian markets. While aiding financial sector development at the national level through policy advice and institutional capacity building, ADB also acts as an active coordinator of regional efforts for building a more resilient and efficient regional financial systems, capable of withstanding unanticipated exogenous shocks.

#### *Climate Change and Energy Efficiency*

Ignoring climate change—or not recognizing its perils—also risks the reversal of hard-won development gains. Heat waves, changes in rainfall patterns, more frequent and severe storms, flood and drought, crop failures, disease, rising sea levels, and the destruction of natural resources pose serious setbacks for achieving the MDGs by 2015. Delay or inaction will hurt the region’s poorest countries and poorest people the most. Asia and the Pacific, with large populations at risk in coastal cities and deltas, fragile mountain areas, arid lands, and small islands, will be severely affected. As the fastest growing contributor to global greenhouse gas (GHG) emissions, the region must also play an important role in finding and implementing solutions. With the use of appropriate cost effective technologies, DMCs can move directly to energy-efficient and environmentally sustainable development, avoiding past approaches with detrimental impact.

Under Strategy 2020, ADB has made environmentally sustainable growth one of its three strategic agendas and the environment is included as a core area of operations. It has stepped up support for projects that move the region on to a low-carbon growth path by using clean energy sources, improving energy efficiency, and reducing fugitive GHG emissions. In addition to mitigating measures, ADB is helping countries adapt to unavoidable impacts of global warming and consequent climate change through national and municipal planning, climate-proofing of projects, and insurance and other risk-sharing instruments. ADB supports sustainable management of forest and other natural resources, protection of biological diversity, and sequestration of carbon from the atmosphere to offset GHG emissions. Our Carbon Market Initiative provides up-front financing as well as technical support for GHG mitigation projects. ADB is also investing \$100 million as seed capital to help establish five funds to catalyze private sector capital in advancing energy efficiency, clean and renewable energy, and other low-carbon opportunities. Also, preparation is underway to provide concessional funds to many low-income developing countries for covering the incremental cost of shifting to more energy efficient technologies.

### **III. Enhancing Institutional Relevance and Effectiveness**

#### *The Asian Development Fund*

The successful \$11.3 billion replenishment in 2008 of the Asian Development Fund (ADF), ADB’s concessional lending window, will help ADB strengthen its support to lift millions out of absolute poverty. Elimination of poverty remains the region’s largest challenge and ADB’s vision to 2020. One

hundred million of the absolute poor and 300 million on the verge of falling into this category live in nations that qualify for ADF concessional loans and grants. Most of these countries' per capita income has grown at 3% to 4% or less in recent years, well below the developing Asia average, and too slowly to achieve the MDGs by 2015. Higher ODA will be indispensable to speed up growth and spread the benefits of growth more broadly, as well as to reform policies, improve governance, build development partnerships, both private and public, and produce substantive results from assistance they receive.

ADB will expand its operations in these countries through ADF funded projects in transport, energy, water and sanitation, and rural infrastructure. These undertakings foster growth and reduce poverty and inequality by raising productivity and incomes, lowering commodity prices, and giving the excluded, especially in the countryside, better social services such as health and education. Access to quality education, a special priority of ADB operations, can directly benefit women, whose empowerment is essential for achieving the region's non-income MDGs. Promoting gender equity will be central to ADF project planning and implementation.

#### *Results Framework and Aid Effectiveness*

ADB is also taking further steps to improve its own performance based on results. In September, a new four-part results framework was finalized to monitor progress in ADB's operational and institutional transformation to 2020. It will track the region's progress in the collective development efforts that ADB contributes to, with indicators covering poverty and human development, as well as GDP per capita, regional cooperation and integration, access to basic infrastructure, governance, and the environment. ADB will assess its contribution to country and regional outcomes by aggregating key outputs of projects in five operational priority areas: transport, energy, water, education, and finance. The new framework will measure ADB's operational effectiveness in five main categories: operational quality and portfolio performance, finance mobilization, strategic focus in operations, knowledge development, and partnerships. ADB's use of human and budgetary resources and its business processes and practices will also be assessed annually to measure progress in making it a more efficient, effective, relevant, and results-oriented organization. An annual Development Effectiveness Review report assessing performance against set goals and targets will help to sustain ADB's progress towards attaining greater operational efficacy and institutional responsiveness to clients needs.