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Working in Partnership with

The Asian Development Bank

Department for International Development

The Department for International Development (DFID) is the British government department responsible for promoting development and the reduction of poverty. The government elected in May 1997 increased its commitment to development by strengthening the department and increasing its budget.

The policy of the government was set out in the White Paper on International Development, published in November 1997. The central focus of the policy is a commitment to the internationally agreed target to halve the proportion of people living in extreme poverty by 2015, together with the associated targets including basic health care provision and universal access to primary education by the same date.

DFID seeks to work in partnership with governments which are committed to the international targets, and seeks to work with business, civil society and the research community to encourage progress which will help reduce poverty. We also work with multilateral institutions including the World Bank, United Nations agencies and the European Commission. The bulk of our assistance is concentrated on the poorest countries in Asia and sub-Saharan Africa.

We are also contributing to poverty elimination and sustainable development in middle-income countries, and helping the transition countries in Central and Eastern Europe to try to ensure that the widest number of people benefit from the process of change.

As well as its headquarters in London and East Kilbride, DFID has offices in New Delhi, Bangkok, Dhaka, Kathmandu, Nairobi, Dar-es-Salaam, Kampala, Harare, Pretoria, Suva and Bridgetown. In other parts of the world, DFID works through staff based in British embassies and high commissions.

Institutional Strategy Papers

Institutional Strategy Papers (ISPs) are prepared for the main multilateral development institutions with which DFID works, and are normally produced every three years. ISPs set out how we aim to contribute to achieving our White Paper objectives in partnership with each of the institutions concerned. The preparation of ISPs is a consultative process involving the institutions themselves and a range of civil society and other contacts.

Department for International Development
May 2000

The UK's International Development Partnership with the Asian Development Bank: Institutional Strategy Paper

Contents

A. Summary

A1 This Institutional Strategy Paper considers how the UK Government can help to strengthen the contribution which the Asian Development Bank (AsDB) can make to poverty elimination in the Asia Pacific Region where close to 900 million people – one-third of the population – live in poverty.

A2 The AsBD provides advice, technical assistance and development finance. Its lending is both on non-concessional terms, and on highly concessional terms, from the Asian Development Fund, to the poorest countries. The volume of its operations in the region is second only to that of the World Bank. It has always been concerned with poverty reduction and, in 1999, moved to make poverty reduction its overarching goal. The challenge now is to ensure that this fundamental shift is fully carried through. Confidence that this will happen is likely to be central to a successful outcome to the seventh replenishment of the Asian Development Fund – negotiations on which are under way.

A3 DFID recognises that the role of the AsDB in middle-income countries is important, too – not least because a substantial proportion of the poorest people live there. Many of the issues and recommendations in this strategy relate equally to the Bank's role and approach in these countries, which receive by far the larger part of the Bank's resources (72% of its total lending between 1968 and 1999 inclusive). But, clearly, the Bank should provide different forms of support to middle-income countries than to the poorest counties, though its mission to reduce poverty is the same. Although, over the past ten years, the balance between private and official flows has shifted, the international financial institutions remain an important source of lending to finance growth and provide leverage over policy reform. To date, poverty has not featured highly in their dialogue with middle-income countries, but this is now changing. A recent DFID review of the needs of middle-income countries suggests that the challenge for the AsDB is threefold: to work towards a better diagnosis of poverty country by country to inform policy; a greater focus on the structural impediments to growth; and application of the lessons learned.

A4 The Bank's strengths lie not only in the volume of its operations but also, as a regional institution, in its closeness to its borrowing member countries and its ability to influence their policies. Its 'Asian character' gives it a particular role in helping to find solutions to regional problems. It is, however, hindered in this by being overly centralised, with little authority delegated to its Resident Missions. It is now starting to move to greater decentralisation, as it needs to do, to strengthen its policy dialogue with governments, the private sector and civil society and to develop partnerships in-country with other donors.

A5 An economical institution in terms of its administrative costs, the Bank has limited staffing in the areas of social development and governance. This will need to be reviewed, with the probability of an increase in staff numbers, and a change in its skills mix, if its Poverty Reduction Strategy is to be successfully implemented.

A6 This paper identifies the objectives which DFID intends to pursue. This will be done in a number of ways, through meetings of the Boards of Governors and of Directors and negotiations to replenish the Asian Development Fund. In addition, greater contact between DFID and Bank staff will be sought to build stronger links between our country programme managers and advisory staff and their Bank counterparts. The UK is a relatively small shareholder, but DFID will work with like-minded colleagues in our constituency in the Board of Directors and with other member countries. Where appropriate, we will provide technical assistance, second staff and arrange seminars on subjects of mutual interest.

B. The AsDB: Comparative Strengths and Weaknesses

B1 The Asian Development Bank (AsDB) was established in 1966 and exists to foster economic growth and fight poverty in the Asia Pacific Region, extending from the Pacific Islands through East and South Asia to the Central Asian Republics.

B2 The UK Government's White Paper 'Eliminating World Poverty: A Challenge for the 21st Century' (November 1997) recognises the unique contribution which the multilateral development institutions, such as the AsDB, can make to development. As the AsDB is the second largest source of development assistance for Asia after the World Bank – with commitments in 1999 of some $5 billion and $12 billion respectively – it has an important role to play in setting and pursuing the international development agenda in the region.

B3 The AsDB lends both on non-concessional terms from its ordinary capital resources to member countries, and on highly concessional terms, from the Asian Development Fund (AsDF), to borrowing countries with low average per capita incomes. However, the two countries in the region with the largest number of poor people – India and China – have not, in practice, been allowed access to concessional funds, even though they are eligible under the Bank's own policy. This seriously impedes the ability of the AsDB to pursue projects directly related to poverty reduction in these countries.

B4 The AsDB is financially conservative – traditionally maintaining proportionately higher levels of reserves than the other Multilateral Development Banks (MDBs). This enables it to borrow almost as cheaply from the markets as the World Bank, with which it shares a AAA investment grade rating. However, responding to the Asian financial crisis of 1997 has put pressure on the Bank's financial indicators. Despite an increase in Ordinary Capital Resources (OCR) lending rates with effect from January 2000, and other measures to improve the Bank's financial strength, a review of its capital adequacy is to be initiated in mid-2000.

B5 The Bank's strengths – its value added – derive not only from the scale of its operations but, more importantly, from its 'Asian character'. Based in Asia and majority-owned by countries in the region, the AsDB is well placed to play a key intellectual leadership role in developing a common understanding on poverty reduction in the region. Drawing on consensus policies and local knowledge and understanding, there is scope for it to provide "Asian solutions to Asian problems", and to handle issues of particular sensitivity.

B6 The AsDB was, for instance, the first MDB to adopt a Board approved policy on governance. This affirms the direct relevance of governance to development performance and pursues the principle of participation, transparency, predictability and accountability. It also identifies specific areas of Bank support, through its Technical Assistance Special Fund, such as strengthening of public sector management, establishment of transparent and accountable policy and regulatory frameworks conducive to private sector development, improving tax and fiscal management, and fostering participatory development. The Bank has also adopted an anti-corruption policy and intends to play an important role helping countries in the region to put in place measures to tackle corruption in both the public and private sectors.

B7 For most of its life, the Bank has been largely a financier of physical infrastructure – particularly in energy, agriculture and natural resources, and transport. In the 1990's, it expanded its approach to encompass more social development issues, but reduction of poverty was just one of its strategic development objectives, alongside economic growth, human development, sound environmental management and improving the status of women. Over the past couple of years, it has developed strategies on gender and development, co-operation with non-governmental organisations (NGOs) and indigenous people.

B8 In early 1999, the incoming President, Tadao Chino, announced in a public statement that the Bank's overarching objective would be poverty reduction. In November 1999, the Bank adopted a strategy that placed poverty reduction at the centre of its operations, with the other strategic objectives being pursued in ways that contribute most effectively to reducing poverty. This fundamental shift must be mainstreamed into all projects and programmes to affect every aspect and level of the AsDB's operations, requiring new tools, senior management commitment and changes in the skills mix of Bank staff. We very much welcome the concept that staff must "think poverty at all times".

B9 The AsDB is regarded as the most economical of the MDBs, with the lowest ratio of administrative to programme costs. However, after a five-year freeze on its administrative budget, the Bank now looks thinly staffed to tackle its complex and changed mandate. Its skills mix is probably not well suited to its new poverty reduction agenda – the areas of governance and social development, in particular, need strengthening. To meet these challenges, the Bank is re-skilling staff and proposing to take on additional staff in key areas. But it should be wary of embarking on too broad-based a development agenda until it has the necessary skills and capacity.

B10 As a regional institution, the AsDB takes pride in being close to its clients, and uses its regional character and ownership well by promoting regional and cross-border co-operation. But the World Bank's decentralisation challenges this advantage. By being highly centralised on its Headquarters in Manila, the AsDB misses opportunities for both a close relationship with borrowing countries and in-country dialogue with other donors. As a result, it could be sidelined in the evolution of development thinking. Recognising the dangers, the AsDB is now proposing to strengthen its Resident Missions and delegate more authority to them.

B11 Perhaps reflecting its limited in-country presence, the Bank is perceived as having made little effort to date to co-ordinate its activities with other donors – multilateral or bilateral – and, instead, is regarded as pursuing its own projects without consultation and agreement with others. The AsDB has not embraced the concept of using sector-wide approaches (SWAPs), which are widely seen as a way of overcoming a number of weaknesses of the project-based approach to development. The Bank needs to become fully involved in SWAPs to maximise the developmental impact of its programmes. Nevertheless, it is now moving away from individual project lending to more policy-based lending, particularly for social sectors. As it does so, it is making greater efforts at country level to co-operate more closely with others, particularly the World Bank.

B12 We welcome the AsDB's commitment to work more in partnership with others. In particular, this will require involvement in the implementation of the Comprehensive Development Framework (CDF) – a long-term vision for development proposed by the World Bank. The aim is to overcome the existing fragmentation of development efforts, and focus on achieving long-term objectives of reducing poverty, based on the following underlying principles:

- country ownership;
- participation by all donors and stakeholders (central and local governments, the private sector, civil society and NGOs);
- a long-term holistic approach to development (social and institutional as well as macro-economic issues);
- greater focus on development outcomes, particularly poverty reduction.

These principles are as applicable in middle-income countries as in the poorest countries of the Asia Pacific Region.

B13 As Poverty Reduction Strategy Papers (PRSPs) are introduced country by country into the region, the AsDB should work closely with the World Bank and the International Monetary Fund (IMF) on these country-driven strategies. PRSPs should be prepared according to the principles embedded in the CDF, reflecting the outcome of an open, participatory process involving governments, civil society, and all key donors. PRSPs are designed to provide a framework not only for allocating all development resources, but also for setting the policy framework which will have the maximum impact on poverty reduction. They should, therefore, provide a clear link to achievement of the International Development Targets.

C. DFID Objectives and Priorities

C1 The UK's approach to international development was set out in the White Paper 'Eliminating World Poverty: a Challenge for the 21st Century' (November 1997). This places a strong emphasis on building partnerships, including with other donors, to contribute towards the elimination of poverty. The UK therefore seeks to work in partnership with the Regional Development Banks, such as the AsDB, to strengthen the poverty focus of their operations and encourage them to set quantifiable targets for poverty reduction, and measure progress towards achieving them. The main purpose of this Institutional Strategy Paper is to set out in more detail how DFID wishes to pursue its future work with the AsDB.

Poverty Focus

C2 Over the past 30 years, the 'Asian miracle' has resulted in, perhaps, the single most effective anti-poverty performance in history. In East Asia, despite an increasing population, the number of poor people halved between 1975 and 1995. This huge reduction was underpinned by investments in human, social and technological capital. Despite this progress, the Asia Pacific Region remains where the majority of the world's poor live. They number close to 900 million people – about one-third of the total population – of whom some 500 million live in absolute poverty (i.e. those who survive on less than US$1 a day)[1]. Most are in South Asia, which has received 34% of the Bank's total lending to date.

C3 The financial crisis of 1997-98 threatened much of the hard won progress in East and South East Asia. By the end of 1998, the total number of poor in the region had increased, though by less than predicted[2]. Although some of the impacts from the crisis are lower than were projected earlier, they are nevertheless significant when viewed against the backdrop of sustained socio-economic progress that preceded the crisis.

C4 The Bank's Poverty Reduction Strategy, agreed in November 1999, clearly establishes poverty reduction as the AsDB's overarching goal. It identifies pro-poor, sustainable economic growth, social development and good governance as the three pillars supporting poverty reduction. These will underpin programmes of policy reform, investment projects and capacity-building. The starting point will be a comprehensive examination of the constraints and opportunities for poverty reduction country by country, building a poverty database on each. Good governance, the contribution of the private sector, improving the status of women and environmental sustainability are recognised as important cross-cutting issues to be addressed in all interventions. There is a welcome acknowledgement that the process must be led by governments, with participation from civil society, the private sector and donors, leading to Partnership Agreements with the AsDB which will be translated into Country Assistance Plans.

C5 DFID strongly supports the Bank's intention to ensure that all AsDB loans and technical assistance will contribute to the reduction of poverty. In requiring proposals to contain a specific assessment of their poverty impact, the Bank should ensure that all fit sensibly into a country strategy with an overarching poverty objective.

C6 The UK's White Paper establishes the International Development Targets (IDTs) firmly at the heart of the fight against poverty. We have urged the Bank to ensure that all its activities contribute to achieving the IDTs, and are measured in terms of outcomes. The AsDB supports the IDTs and intends to work with its members to develop appropriate regional targets for poverty reduction. These will be based on the Agenda for Action on Social Development agreed by Asia and Pacific Ministers in 1997, which includes the target of eradicating absolute poverty in the region by 2010. Because of the effects of the Asian financial crisis, such targets now need to be reviewed. Given Asia's strong base, compared with Africa or Latin America, specific targets for the Asia Pacific Region should be more ambitious than those in the global IDTs.

Objective 1:
To ensure that the Asian Development Bank's overarching objective of poverty reduction is fully mainstreamed in its policies, procedures and programmes, and that the Bank works to develop and pursue accelerated, but realistic, poverty reduction targets for the Asia Pacific Region in support of the International Development Targets.

C7 In October 1999, negotiations began on the latest replenishment of the Asian Development Fund (AsDF-VIII) and are expected to be concluded in the autumn of 2000. The UK's objectives are set out below:

1 Figures taken from the Asian Development Bank's Strategy for Poverty Reduction

2 AsDB's Economics and Development Resource Centre Briefing Notes No 16: Social Consequences of the Financial Crisis in Asia – The Deeper Crisis (James C. Knowles, Ernesto M. Pernia and Mary Racelis)

Objective 2:
In the AsDF-VIII negotiations, the UK's objectives are to get agreement on:

- **poverty being mainstreamed into all AsDF operations, linked to achievement of the International Development Targets, with the Bank undertaking country poverty assessments to help inform its Country Strategy Papers;**
- **development of a performance-based allocation system of the type agreed in the latest replenishments of the International Development Association (IDA-12) and African Development Fund (AfDF-VIII) covering economic management, human development and governance factors;**
- **further work on the Bank's role in improving governance (through better budgetary planning, and tackling corruption and money-laundering in the poorest countries of the region);**
- **better co-ordination and co-operation with other donors – multilateral and bilateral – and closer working with borrowing countries, including through the Comprehensive Development Framework process proposed by the World Bank;**
- **enhanced project effectiveness, quality control and evaluation to measure the developmental impact of Fund programmes, and harmonisation of evaluation systems with other Multilateral Development Banks;**
- **a limited allocation for India (which currently does not benefit from Fund resources), to reflect the level of poverty in that country; and**
- **enhancing the effectiveness of the Board of Executive Directors and forming a new partnership between shareholders and Bank management.**

C8 We believe that there should be strong linkage between country performance and resource allocation, as it is only where governments are committed to reform and sound policies that aid is effective in reducing poverty. The AsDB's Poverty Reduction Strategy also recognises the need to ally individual country poverty reduction partnership agreements with a performance-based allocation system. We are working with the Bank to develop such a system that takes explicit account of poverty, governance and economic performance in allocating resources to individual countries. Although, initially, this is for AsDF countries, such an allocation system would also be appropriate for middle-income countries, given that the Bank's overarching goal of poverty reduction extends across all its lending programmes.

C9 Country Operational Strategies (COSs) and Country Assistance Plans (CAPs) are currently the main instruments for formulating the AsDB's assistance strategy and programme in each country. COSs – produced every three to four years – provide the general direction of the Bank's operations while CAPs are annual plans which set out detailed pipelines of operations over a rolling three-year programme. We welcome the recent proposals of a steering committee of the Bank to improve the quality and efficiency of the country planning and programming process, including the integration of COSs and CAPs into one document with a closer link to the Bank's Strategic Development Objectives. We believe that, as in other MDBs, such important strategic documents should be formally endorsed by the Board of Directors. To date, DFID has had little involvement in their preparation, but we shall seek to work with the AsDB to ensure a better exchange of information. We shall also take greater account of the Bank's work when preparing DFID's own Country Strategy Papers for the Asia Pacific Region.

C10 It is important that all donors should provide support in line with nationally-owned development plans, reflecting the outcome of participatory processes. To assist borrowers in formulating these, the AsDB should work in partnership with the World Bank to help with the production of country poverty assessments to inform these plans.

Objective 3:
To encourage adoption by the Bank, with Board approval, of country strategies which support nationally-owned development plans reflecting a clear commitment to poverty reduction, based on wide consultation and appropriate poverty assessment.

C11 In its report of March 1996, the Development Committee's task force on the MDBs justified the case for the combined existence of the World Bank and the Regional Development Banks on the grounds of diversity. The present system, it said, offers choice, sparks innovation and serves to limit the scope for complacency. However, this requires co-ordination if the combined presence of these institutions is not to become wasteful, self-defeating and cause duplication and overlap, reducing effectiveness and blunting responsiveness to country needs. They can serve their members most effectively if they pool their respective strengths through adoption of coherent policies and co-ordinated operations. DFID shares these views and considers it important for the AsDB clearly to identify its areas of comparative advantage, so that it can work more closely and effectively with other institutions, particularly the World Bank and, in Central Asian Republics, the European Bank for Reconstruction and Development (EBRD).

C12 Recognising the importance of close communication at management and staff levels to strengthen co-ordination and improve developmental impact, the AsDB and World Bank hold twice-yearly meetings at Vice-Presidential level. We welcome the recent agreement between these two institutions on a Framework and Structure for Co-operation. In supporting this approach, we are encouraging the AsDB to involve itself in the implementation of a Comprehensive Development Framework (CDF), proposed by the World Bank, aimed at overcoming the present fragmented development system. The AsDB is already the principal donor in many sectors, and so would be well placed to take the lead donor role in certain CDF pilot countries. It should also work closely with the World Bank and IMF on country-driven Poverty Reduction Strategy Papers (PRSPs) as these are introduced into the Asia Pacific Region.

> **Objective 4:**
> **To encourage the Bank to define clearly its comparative advantage in relation to other development partners, and to participate in the CDF and PRSP processes in the Asia Pacific Region in a positive and distinctive way.**

C13 As the Asian financial crisis demonstrated, the AsDB can work closely with the IMF and the World Bank in responding to emergency situations. It is generally recognised that it is for the Fund, not the MDBs, to provide liquidity funding in such circumstances. The role of the Banks lies in helping to analyse the crises and in devising means of assistance which will support long-term development, particularly through financial sector restructuring and providing assistance to the social sectors. They also have an important part to play in crisis prevention.

C14 The AsDB recognises that private capital is playing an increasingly central role in net long-term resource flows to developing countries, but that its contribution to development – and, in particular, poverty reduction – in Asia as a whole has been limited and uneven. Foreign direct investment (FDI) is heavily concentrated on a small number of middle-income countries, principally China, Malaysia and Thailand. The Bank sees one of its key challenges as being to facilitate the flow of an increasing share of private sector capital flows to lagging economies and regions.

C15 In reviewing its Private Sector Development Strategy, the AsDB acknowledges that its borrowers are increasingly turning to the private sector as the engine of growth and the creator of wealth. Since FDI is at present concentrated in relatively few countries, the initial focus must be on domestic savings and investment because conditions which improve domestic saving also attract inward investment. With the adoption of poverty reduction as its overarching objective, the Bank needs to reorient its private sector development assistance to focus on pro-poor growth. In doing so, it should focus on key systemic issues which need to be tackled to help countries establish a policy environment conducive to private sector investment. These issues include building better financial intermediation and corporate governance. A closer partnership between the public and private areas of the Bank's work will be critical to developing a role in helping countries address structural issues in their financial sectors, particularly through the establishment of a proper enabling environment. The Bank should also ensure that its own operations complement, rather than displace, private sector investment; such direct private sector operations must be strategic, catalytic, additional and demonstrational.

> **Objective 5:**
> **To encourage the Bank to become more proactive in helping countries to establish an enabling environment for private sector growth, with high standards of corporate governance, and in ensuring that its private sector operations are strategic, catalytic, additional and demonstrational, and that the Private Sector Development Strategy has clear links to the Poverty Reduction Strategy.**

Institutional and Management Reform

C16 Despite having Resident Missions in 12 borrowing countries and one Regional Office to cover the South Pacific, the Bank remains a highly centralised organisation with most decisions taken at its Headquarters in Manila. Its in-country offices are relatively small and largely restricted to project implementation, logistical support and liaison with the host government. Their lack of policy responsibility hampers the Bank's ability to interact substantively with more decentralised institutions such as the World Bank and bilateral donors such as the UK. Moreover, the traditional merit of a Regional Development Bank being closer to its borrowing member countries is being challenged, particularly given the scale of the World Bank decentralisation in the region. For some time, DFID has actively sought to encourage further decentralisation of functions and responsibilities to Resident Missions, and welcomes the action the AsDB is now taking on this.

Objective 6:
To persuade the Bank of the benefits of further decentralisation of decision-making to Resident Missions so that, at least in the key countries, they can substantially represent and speak for the Bank in pursuing policy dialogue with government and partnership with other donors.

C17 The AsDB recognises that having the right skills mix is important to integrate cross-cutting issues into its operations. Changing the mix has been made difficult because the number of professional staff was held constant for five years. As from 1999, following a five-year freeze on recruitment and in response to the Bank's changed agenda, additional posts have been put in place and more are planned over the next three years. We recognise that the Bank must increase its numbers and change its skills mix in order to refocus its efforts on poverty reduction. In particular, if it is to deliver its Poverty Reduction Strategy, it will require more governance and social development expertise. These changes will not be easy to achieve; the Bank is losing some of its staff to the World Bank (as it decentralises) and to other international organisations. Where appropriate, we shall support increases in the Bank's staffing and related administrative costs, in order to strengthen its governance and social development capabilities.

C18 We are, however, concerned that the Bank operates a quota system for professional staff (i.e. the number of staff of a particular nationality depends on the size of that country's shareholding), and certain posts are reserved for nationals of particular countries. We shall work to get agreement that staff are appointed competitively on individual merit – irrespective of gender, nationality, race, colour or creed.

Objective 7:
To work to strengthen the governance and social development capability of the Bank, and encourage the introduction of a competitive and merit-based system of recruitment and promotion.

C19 The AsDB went through a major internal reorganisation in 1995. The UK believes that it would now be timely to review the Bank's structure and working practices to see if they are adequate to meet the development the challenges of the new century. Many changes in the Bank's configuration are being made as a result of a number of ongoing policy and strategy reviews. The Poverty Reduction Strategy and the Private Sector Development Strategy will both result in considerable changes – in structure, in work practices and in attitudes. Increased delegation to Resident Missions will also have fundamental implications for the Bank. A realistic view should be taken of these various developments and a systematic examination of the Bank's internal structure and working practices should be carried out. Such an examination should also need to look at, inter alia, incentives for project quality, peer review, more team management, and more multidisciplinary approaches.

Objective 8:
To propose that the Bank undertakes a thorough internal review to see how far it might need 're-engineering' to equip it to meet the development challenges of the 21st century.

C20 As in all multilateral institutions, it is important that the full diversity of views within the organisation is heard, and that there is a good partnership between Bank management and staff on the one side and shareholders on the other. Without questioning the prerogative of management to manage the Bank, DFID sees scope for greater involvement of shareholders, particularly through the Board of Directors, in determining the AsDB's strategic direction. Shareholders have a key role in maintaining the capital adequacy of the Bank, whether through replenishments of the AsDF or its capital base, and have a clear interest in playing a fuller part in future decision-making. There is also scope for much more informal contact between Bank management and the Board, particularly in the early stages of developing new policies or strategies.

Objective 9:
To help to strengthen the partnership between shareholders and Bank management by enhancing the effectiveness of the Board of Directors and its involvement in key policy and strategic decision-making.

Project Quality, Evaluation and Impact Assessment

C21 An AsDB task force reviewed project quality in 1994 and underlined the need for a sharper country focus in its operations; a change in the staff skills mix to address more effectively social and environmental concerns and the new development agenda; and greater attention to design and monitoring of projects rather than the prevailing approval culture. Work on implementing the findings of the task force continues, but it would be timely to revisit the question of project quality. Evaluation has an important role to play, too, and we welcome the ongoing work between the MDBs to harmonise their evaluation procedures and practices to ensure greater coherence in development.

C22 Good project design with clear objectives and indicators that take account of the lessons of experience is the first step in enhancing development effectiveness. It is important, too, to have a clear strategy for impact assessment, and we believe that the time is right for the AsDB to examine the effectiveness of its own systems. Rather than focusing on individual projects, the Bank should concentrate on producing thematic, sectoral and country impact assessments, as these are more effective ways of supporting policy-making and ensuring accountability. There should be clear reporting lines for all units involved in impact assessment, an independent mechanism for ex-ante reviews of projects and a central quality control function to promote effective self-assessment by project teams, and the rating systems should be examined to ensure that the criteria for their use is clear. The establishment of a permanent Quality Assurance Group would help to ensure that projects are of the highest quality.

Objective 10:
To contribute to enhancing the quality and impact of the Bank's projects and programmes, particularly by encouraging the use of such measures as evaluation systems measuring developmental impact, improved monitoring of portfolio performance, greater use of peer review in project preparation and a more multidisciplinary approach to project preparation.

Illicit Drugs and Money Laundering

C23 As Asia is one of the world's major areas for illicit drug production, the AsDB has established good links with the United Nations Drugs Control Programme (UNDCP); they are co-operating on joint projects. We believe, however, that the Bank needs to take a strategic position on drug-related issues, adopting a multisectoral approach. Where relevant, drug-related issues should be covered in country strategies, and the Bank should seek opportunities to support alternative development projects in those key drugs producing nations where it has lending programmes. By tackling poverty and helping to develop legitimate livelihoods for poor people, the Bank can play a part in helping to stem the production and trafficking of drugs.

C24 We also believe that the Bank should endorse the Recommendations of the Financial Action Task Force and produce a policy paper on money laundering. It should take account of the anti-money-laundering policies and legislation of borrowing countries when considering country programmes and in pursuing projects in the financial sector.

Objective 11:
To persuade the Bank of the relevance of preparing policy papers on combating the production and trafficking of illegal drugs, and on money-laundering, and – in key countries – of seeking out projects and programmes to contribute to these goals.

Labour Standards and Child Labour

C25 DFID is working for the world-wide observance of core labour standards for all workers, including those in the informal sector where female workers are concentrated. It is important to ensure production standards are appropriate and that children receive education when they are working and have safe working conditions, while ensuring that all intolerable forms of child labour are eradicated (e.g. slavery, debt bondage, trafficking, and prostitution). Given the scale of these problems in certain Asian countries, the AsDB should develop a policy and support projects that address these issues.

Objective 12:
To encourage the Bank to prepare a policy paper on labour standards and child labour and implement its recommendations.

HIV/AIDS

C26 HIV did not arrive in Asia until the late 1980s, but infection is spreading rapidly in many parts of the continent. Though rates of infection remain generally lower than in sub-Saharan Africa, the sheer number of people living in Asia, and the size of the population already infected, means that the potential size and impact of the epidemic is huge. Patterns and levels of infection vary widely within and between countries. Many Asian countries still have only a poor idea of the true extent of the HIV/AIDS disease burden and have grossly underestimated the full impact. Girls and young women are particularly vulnerable to HIV infection, due to cultural and social norms in many countries, and frequent cross-border traffic of migrants and sex workers.

C27 Failure by most national governments to acknowledge and act on the problem reflects complacency and denial among the leadership, cultural constraints, limited resources, and lack of effectiveness of national and multilateral organisations working in this area. Most countries have some form of National AIDS Control Plan but, with the exception of Thailand, Sri Lanka and Malaysia, few have demonstrated the capacity to tackle HIV/AIDS effectively – and few programmes have adequate resources to do so. We believe that this is exactly the sort of sensitive issue where the AsDB – as a regional institution – has a particular role to play.

Objective 13:
To raise the priority given by the Bank to tackling HIV/AIDS in Asia, in particular through the mainstreaming of HIV/AIDS interventions within country programmes, and through high-level political advocacy for action on HIV/AIDS within the region.

Financial Aspects

C28 The AsDB's financial policies are among the most prudent of the MDBs:

- loans outstanding plus undisbursed commitments, equity investments and guarantees cannot exceed 100% of subscribed capital and reserves;
- debt guarantees limited to 95% of callable capital of members with convertible currencies;
- liquid assets are maintained at a minimum of 40% of undisbursed pool-based loan commitments and 100% of undisbursed market-based loan commitments;
- no foreign exchange or interest rate risk – full matching of assets and liabilities;
- minimum reserve to loan (RLR) and interest coverage ratios (ICR) of 25% and 1.31 times, respectively.

C29 The Bank's portfolio is overly concentrated in a few countries, with 25% of outstanding loans being to its largest borrower – Indonesia. We have called for a proactive and long-term policy to reduce this concentration.

C30 Fast disbursing loans made by the AsDB to crisis-hit countries during the financial crisis of 1997–98 have adversely affected the Bank's financial indicators. In response, it reviewed its resource position in early 1999 and agreed a number of remedial measures, including a review of its investment strategy and an increase in Ordinary Capital Reserves (OCR) charges with effect from January 2000. Other planned measures include a review of liquidity policy. DFID supports all these measures, and has urged the Bank also to move to a Sustainable Level of Lending (defined as the maximum amount of annual loan commitments that can, under a given set of assumptions, be sustained indefinitely without increasing the levels of loans disbursed and outstanding beyond the existing subscribed capital and projected reserves and surplus). This would bring it into line with the World Bank and the Inter-American Development Bank.

C31 Despite these measures, the AsDB's borrowing headroom is coming under pressure and the Bank intends to carry out a review of its capital adequacy. This is likely to lead to pressure from borrowing member countries for a General Capital Increase.

Objective 14:
To support the Bank in its various endeavours to recover its financial strength and maintain its capital adequacy to ensure that it can fulfil its development mandate more effectively.

D. Instruments for Partnership

D1 DFID has, in effect, three relationships with the Bank: a shareholder and donor relationship (International Division), a policy relationship (DFID advisers), and an operational relationship (DFID country programme managers). We shall aim to deliver this strategy through all three of these. We shall work towards the objectives set out above through the Board of Governors which meets annually, as well as through the Board of Directors. We shall make full use of negotiating and consultation meetings, and of contacts between DFID and Bank staff.

D2 Over the years, contact with the AsDB has been largely confined to our Director in the Bank and DFID staff in International Division with direct responsibility for dealing with MDBs. Contact with DFID country programme managers and professional advisory groups has taken place only intermittently at country level. DFID is now looking to work increasingly in partnership with the AsDB, because we recognise its importance as a regional development institution with strong representation by its regional members and substantial resources for lending. DFID's role as a bilateral donor with a global perspective and grant funds is essentially complementary to this. In 1999, representatives of DFID's Asia Division visited the Bank's Headquarters in Manila for the first time for a formal consultation meeting; other visits have since followed. As well as looking at opportunities for co-financing, we are exploring new ways of working together to help countries assume the leadership of their own development processes.

D3 DFID country programme managers and advisers are keen to learn more about the AsDB, and to seek opportunities for co-operation in those countries where we both have programmes. We are encouraging our own staff to include the Bank's Headquarters in their visit programmes but – over the longer term – the key to improving links with DFID and other donors (multilateral and bilateral) lies in the Bank strengthening its own Resident Missions. In parallel, DFID's International Division will aim to improve the flow of information to Asia Division and advisory groups about what the Bank is doing. A dedicated site on the DFID Intranet has already been created.

D4 In briefing our Governor, Alternate Governor and Director on key issues in the Boards, we shall draw on the knowledge and experience of DFID country programme managers and advisers in London and in DFID regional offices in Asia and the Pacific, focusing particularly on country strategies and project quality. On institutional issues, we shall draw on the expertise not only of DFID's International Division but also of HM Treasury and the Bank of England.

D5 DFID will be open to requests from the Bank for technical co-operation in selected priority areas (e.g. poverty reduction, governance, social development and evaluation). We are also ready to second staff to assist the Bank in key areas, and to arrange occasional seminars to discuss a specific set of UK objectives, or a key theme of particular relevance to the UK. One such example is the joint seminar on Reducing Poverty in Asia held in London in January 2000. In this way, DFID can be involved in the development of the Bank's thinking.

D6 The UK will continue to participate in negotiations, such as the current replenishment of the Asian Development Fund (ADF-VIII). As a relatively small shareholder in the Bank, we can have limited influence on our own. We are therefore fortunate to be part of a constituency which includes Austria, Germany and Turkey where there are shared views on many issues, and with whom we shall continue to work closely. In all of these ways, we believe that we can enhance the DFID-Bank relationship to the mutual benefit of both institutions.

Annex 1: Asian Development Bank: Basic Data

Headquarters: Manila, Philippines

President: Tadao Chino (Japan) elected in January 1999 for a five-year term.

Structure: Established in 1966, the AsDB is owned by the Governments of its 59 members. It has 12 Resident Missions located in its Borrowing Member Countries, a Regional Mission to service the Pacific nations, and Representative Offices in Tokyo, Frankfurt and Washington, DC.

Staff (at December 1999): 1,939 comprising 654 professional and 1,285 support staff.

Administrative Budget: US$198.5 million spent in 1999, against a budget of US$207 million.

Shareholding: The Bank's largest shareholders are USA and Japan (15.9% each), China (6.6%), India (6.5%), and Australia (5.9%). The UK has a 2.1% shareholding.

Lending Instruments: The AsDB is structured along similar lines to the World Bank, with two main lending windows: **Ordinary Capital Resources (OCR)**, borrowing on the international capital markets for on-lending to regional borrowers at market rates of interest; and the **Asian Development Fund (AsDF)**, which lends at concessional rates to the Bank's poorest members, and very small Pacific countries.

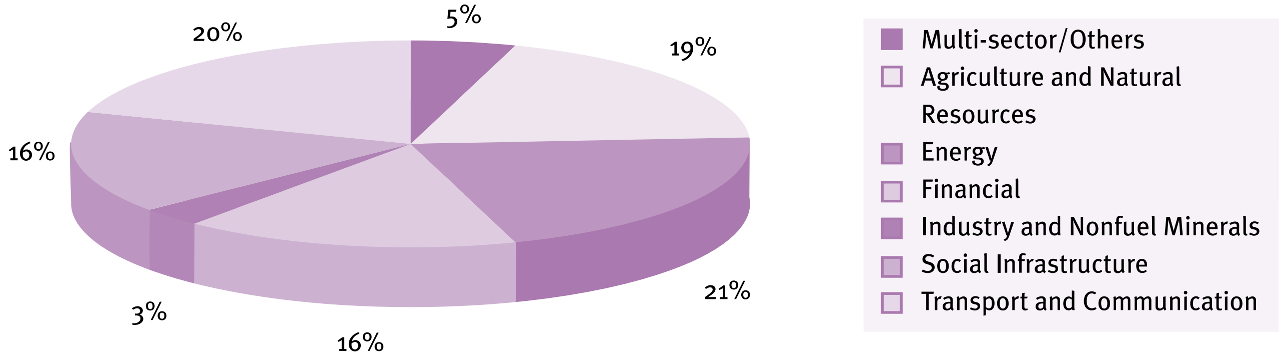
Resource Base: **OCR:** authorised capital of US$49.2 billion (US$48.5 billion subscribed). Only a small part of the capital is paid-in; most of it is in the form of callable capital should the Bank ever become unable to meet its obligations to its bondholders. This capital has never been called. The UK subscription to date is US$1 billion, with US$71 million paid-in. **AsDF**: resources are mainly derived from contributions from donor countries, but also from repayments. The principle of transfers from OCR net income has been agreed, but no transfers have yet occurred because of the need to build up reserve provision for the large emergency loans to support countries hit by the Asian financial crisis.

Graduation: A graduation policy was approved in 1998 which set out the criteria for countries to be graduated from Bank assistance and classified countries into four groups: AsDF only; AsDF with limited OCR; OCR with limited AsDF; and OCR only.

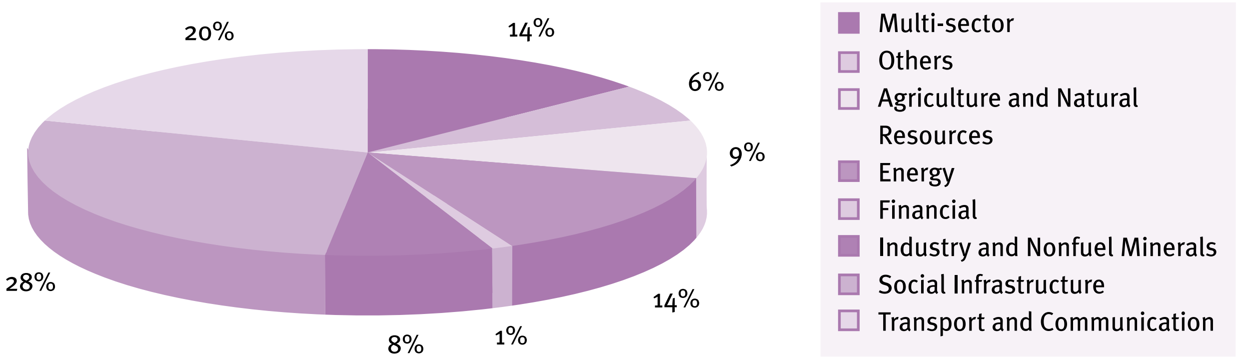
Lending Terms: **OCR** loans have a repayment period of 10 to 30 years, including a grace period of two to seven years. The interest rate, adjusted twice a year to reflect changes in borrowing costs, is currently (up to end of June 2000) 6.46%. **AsDF** loans are repaid over 32 years (for projects) and over 24 years (for programme loans). Both types include an eight-year grace period during which a 1% interest charge is payable, followed by a 1.5% charge during the amortisation period.

Lending Volume: **Total 1999 commitments were $4.98 billion.** This is slightly lower than in recent years: $5.98 billion; the exceptional figure of $9.37 in 1997 (inflated by the $4 billion emergency loan to Korea); $5.33 billion in 1996 and $5.49 billion in 1995. The major recipients of Bank loans to date have been Indonesia, Pakistan, China, India, and the Philippines. In 1999 the top **OCR** borrowers were China (32.2%), Indonesia (26.1%), India (16%), Thailand (9.3%), and the Philippines (7.9%). The breakdown of total (Bank plus concessional Fund) lending for 1999 (1998 figures in brackets) by sectors was: social sectors 27.9% (11.8%); transport and communications 20% (25.0%); energy 14.4% (7.4%); multi-sector 13.9% (15.7%); agriculture and natural resources 8.7% (7.0%); industry and no-fuel minerals 8.2% (0.1%); others 5.6% (5%); and financial 1.4% (28%). Main **AsDF** borrowers in 1999 were Bangladesh (23.4%), Vietnam (14.5%), Sri Lanka (13.8%), Pakistan (8.9%) and Cambodia (8.2%).

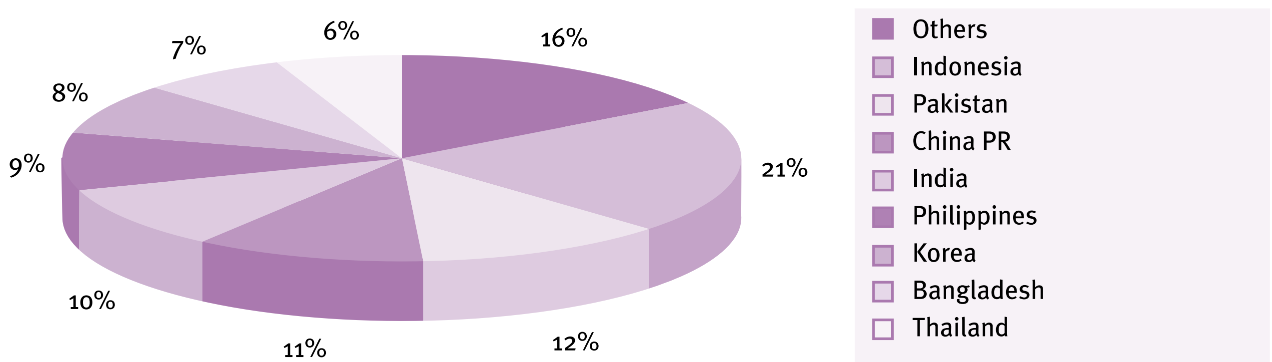
Cumulative loans approved by sector, 1968–99



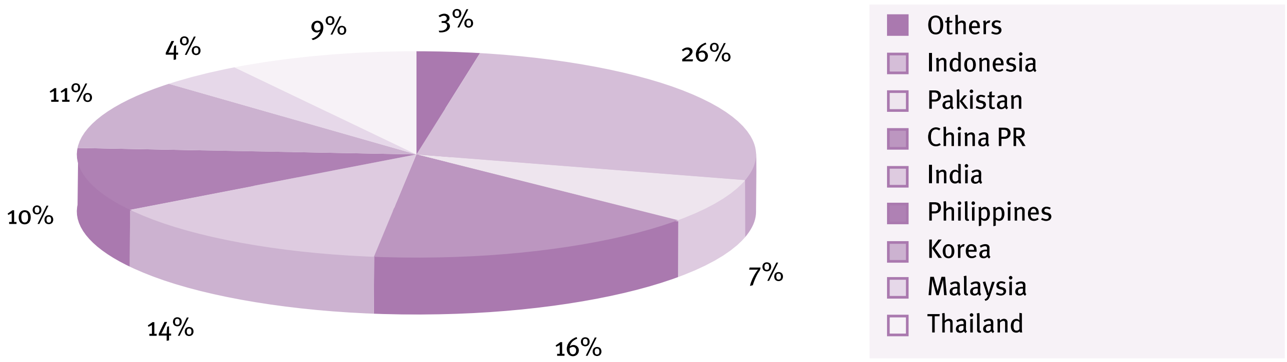
Loans approved by sector in 1999



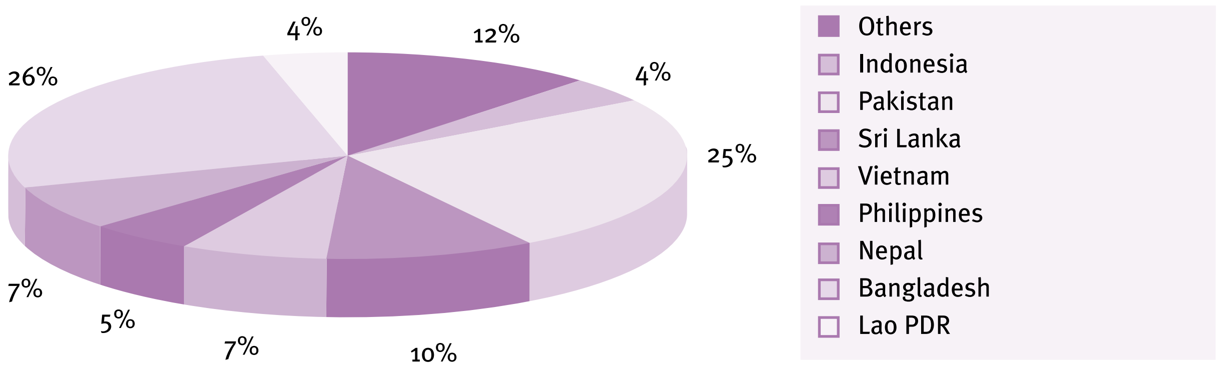
Cumulative total loan approvals by recipient, 1968–99 (Gross approvals total US$83.1 billion)



Cumulative OCR loan approvals by recipient, 1968–99 (Gross approvals total US$60.2 billion)



Cumulative AsDF loan approvals by recipient, 1968–99 (Gross approvals total US$22.8 billion)



Cumulative Gross Approvals by country for the period 1968–99

Countries	Totals (US$ million)		
	OCR	AsDF	Total
Afghanistan	–	95.10	95.10
Bangladesh	176.10	5,766.59	5,942.69
Bhutan	–	75.16	75.16
Cambodia	–	335.67	335.67
China P.R.	9,541.70	–	9,541.70
Cook Islands	–	24.47	24.47
Fiji	161.10	–	161.10
Hong Kong	101.50	–	101.50
India	8,151.00	–	8,151.00
Indonesia	16,173.45	927.12	17,100.57
Kazakhstan	355.00	60.00	415.00
Kiribati	–	15.14	15.14
Korea	6,334.63	3.70	6,338.33
Kyrgyz Republic	–	386.20	386.20
Lao P.D.R.	–	795.04	795.04
Malaysia	2,187.24	3.30	2,190.54
Maldives	–	55.18	55.18
Marshall Islands	–	52.05	52.05
Micronesia Fed. States	–	35.10	35.10
Mongolia	–	427.52	427.52
Myanmar (Burma)	6.60	524.26	530.86
Nauru	5.00	–	5.00
Nepal	48.55	1,633.83	1,682.38
Pakistan	4,305.32	5,568.12	9,874.44
Papua New Guinea	372.88	355.75	728.63
Philippines	6,265.59	1,108.67	7,374.26
Samoa (W)	–	97.42	97.42
Singapore	178.08	3.00	181.08
Solomon Islands	–	69.31	69.31
Sri Lanka	59.14	2,303.62	2,362.76
Taipei, China	100.39	–	100.39
Tajikistan	–	45.00	45.00
Thailand	5,325.97	72.10	5,398.07
Tonga	–	47.79	47.79
Tuvalu	–	4.00	4.00
Uzbekistan	190.00	20.00	210.00
Vanuatu	–	51.25	51.25
Vietnam	73.93	1,676.75	1,750.68
Regional	105.00	197.00	302.00
Total	**60,218.07**	**22,836.26**	**83,054.43**

Annex 2: DFID Contributions to the Asian Development Bank: Expenditure Profile

(£ million)	1998/99 (Actual)	1999/2000 (Estimated)	2000/2001 (Estimated)	2001/02 (Estimated)
AsDB	0.134	0.358	0.910	0.910
AsDF	31.939	34.355	25.581	27.455

Annex 3: Consultation

1. A wide variety of organisations and individuals were consulted during the preparation of this paper. Some offered views and ideas during informal discussion or interviews, while others offered written comments.

2. Within the UK, those consulted included DFID officials dealing with Asian Development Bank affairs, based in our London headquarters and in DFID's regional offices in Asia. There have also been consultations with officials at other UK Government Departments.

3. External consultations have taken place with government officials from the other members of our constituency in the AsDB (Austria, Germany and Turkey) and with government officials of other selected non-regional members of the Bank.

4. In preparing this paper, we have worked closely with our Executive Director at the AsDB, and have consulted the AsDB Vice-President, Finance and Administration. Development NGOs in Manila were also consulted.

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5/00 2K Produced for DFID Information Department
by Stairway Communications ISBN 1 86192 273 6