

Asian Development Fund

ADDF

Empowering Asia's Most Vulnerable



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Asia and the Pacific has made remarkable progress in recent decades. It is one of the fastest growing areas in the world and it has enjoyed economic expansion that has lifted millions of people out of poverty. Between 1990 and 2008, the region has made steady progress in reducing income poverty and is on track to meet the 2015 Millennium Development Goal (MDG) target for this indicator. Despite population growth, the number of people living on less than \$1.25 a day in developing Asia fell dramatically, from more than 1.4 billion in 1990 to 754 million in 2008.*

Despite this success, there are parts of the region that have not shared as fully in this prosperity and development. These countries, which have the greatest development challenges, are eligible to receive very low interest loans and grants from the Asian Development Fund (ADF) of the Asian Development Bank (ADB). Their need is clear. As of 2008, 27% of the population in ADF countries—about 148 million people—live in absolute poverty on less than \$1.25 a day. The number of vulnerable people living under the \$2-a-day poverty line increased from 278 million in 1990 to 314 million in 2008. Although ADF countries have made progress toward the non-income MDGs, it is not fast enough to reach many of the targets by 2015. Based on a selected set of indicators covering education, health, and water and sanitation, ADF countries, as a group, are on track to reach just over one-third of the non-income MDGs by 2015.

For example, ADF countries have made progress in improving access to primary education, with primary enrollment

Although ADF countries have made progress toward the MDGs, it is not fast enough to reach many of the targets by 2015. While the number of absolute poor has declined, the number of people living under \$2 a day has increased. These countries are on track to reach just over one-third of the non-income MDGs by 2015.

* Poverty estimates from G. Wan and I. Sebastian. Forthcoming. Poverty in Asia: An Update. *ADB Economics Working Paper Series*. No. 267. Manila: Asian Development Bank.

increasing from 72% in 1991 to 79% in 2009. But the MDG target of universal primary education will not likely be met by 2015. In the area of health, child malnutrition is particularly pressing. In ADF countries, 36% of children are underweight compared to the Sub-Saharan Africa figure of 27%. Less than 50% of ADF countries are on track to meet the target of access to safe drinking water, while only 25% are on track to reach the target for access to basic sanitation.

These countries with the greatest needs are also the most vulnerable. Of particular concern are rising food and fuel prices, which impact many different aspects of economic and human development. Global food prices registered new highs in early 2011 and are expected to continue on a high and volatile trend in the near future.

Many ADF countries are net food and energy importers, and therefore more vulnerable to fluctuations in prices. This could have a direct and immediate impact on poverty as inflation erodes the purchasing power of households, especially poor households who allocate more than 60% of total household consumption to food. A 10% rise in domestic food prices in developing Asia could push an additional 64.4 million people into poverty.

Adding to the vulnerability of many countries in the region is the presence of conflict and fragile situations.

Currently, 10 ADF countries are affected by this scenario. Though data is limited, poverty rates and MDG achievements tend to be worse than in other countries. Another area where ADF countries are vulnerable is the environment and climate change. Although ADF countries contribute relatively little to climate change, they are particularly vulnerable to its adverse impacts, both because of high population density in low-lying coastal areas and greater reliance on livelihoods based on natural resources. Extreme climate events such as typhoons, floods, and droughts are occurring more frequently and becoming more destructive. Recent estimates suggest that adaptation costs in Asia and the Pacific could reach \$40 billion annually, with more than a quarter of that incurred by ADF countries.

ADF countries have the greatest need, but they also suffer from the least capacity to generate the economic growth necessary to change the situation. Several factors contribute to this situation. ADF countries are behind in terms

ADF Countries— Those in the Greatest Need

Asian Development Fund (ADF) countries are defined as countries that have access to the ADF. ADB currently has 28 ADF countries, including 16 countries that have access to only ADF funding from ADB. These include Afghanistan, Bhutan, Cambodia, Kiribati, the Kyrgyz Republic, the Lao People's Democratic Republic, the Maldives, Nauru, Nepal, Samoa, Solomon Islands, Tajikistan, Timor-Leste, Tonga, Tuvalu, and Vanuatu. Twelve other countries have access to both the ADF and ordinary capital resources. These are Armenia, Bangladesh, Georgia, the Marshall Islands, the Federated States of Micronesia, Mongolia, Pakistan, Palau, Papua New Guinea, Sri Lanka, Uzbekistan, and Viet Nam.

Mongolia | Bringing Water to the Desert



Burmaa Nergui, a 22-year-old woman in the southern Mongolian town of Sainshand, obtains water from an ADF-supported kiosk with her 2-year-old daughter Bilguun.

Burmaa Nergui, a 22-year-old resident of Sainshand, in southern Mongolia, used to rely on her husband to fetch water for their family because it was an arduous, time-consuming task. Now, with a modern water distribution kiosk and no queues, she does it herself. “We use the water for washing, cleaning, cooking, for everything in our home,” she says. “It’s much easier for me to take care of my family when I can easily get clean water.” The kiosk that she is benefiting from was financed by the Integrated Development of Basic Urban Services in Provincial Towns Project, which was supported with a \$20.1 million loan from the Asian Development Fund (ADF). The project, which was completed in December 2008, has improved access to clean water and sanitation services in eight provincial centers and benefited 148,000 residents (over 25% of the area’s population). An independent review by ADB’s Independent Evaluation Department found that the ADB-financed water supply, wastewater treatment, solid waste collection, and bathhouse components of the project contributed to poverty reduction in the area.

of economic and social infrastructure, and suffer from weak governance and institutions. Strong infrastructure, governance and institutions are all critical to sustained economic growth. In addition, the private sector, a key driver of economic growth and poverty-reducing jobs, faces major challenges in ADF countries. Most ADF countries have a weak environment for private sector development, and the majority is classified by credit agencies as non-investment grade. This perception of disproportionately high risk directly impacts the cost of private financing and capital in ADF countries, leading to increased, and often prohibitive, private financing costs and consequently fewer private inflows. Compounding these problems are weak fiscal situations, exacerbated by the global economic downturn. By 2010, 14 ADF countries reported fiscal deficits exceeding 3.5% of the gross domestic product (GDP), compared with only nine in 2007. Inflation is accelerating in many countries, along with external debt.

Without these tools to address widespread poverty, ADF countries depend heavily on official development assistance (ODA), which accounts for 5.6% of GDP in ADF countries in 1995–2009, and of which about 10% came from the ADF. The ADF is an important aspect of ODA because of its financial strength and sector expertise, and its integration in ADB’s broader operations. As the largest fund managed by ADB, ADF operations benefit from ADB’s comparative strengths and institutional improvements. In addition, ADB has been specializing in providing assistance to countries in the region over a long period and is a trusted partner for many

ADF countries, enabling ADB to engage in sensitive policy dialogue. ADB, and by extension ADF, also offers finance and knowledge in an integrated development solution, which provides substantial efficiency gains.

ADF is a crucial financing source to help ADF countries achieve the MDGs, reduce poverty, and tackle development challenges.

ADF assistance makes up for the limited availability of alternative financing flows, complements ODA provided by other development partners, and provides value for money. During these increasingly difficult times for Asia's most vulnerable people, strong support from the ADF is needed more than ever.

ADB is particularly sensitive to improving operational effectiveness, and this includes its ADF operations. It has worked to manage for development results, upgrade safeguard policies, respond more efficiently and quickly to clients, transform into a learning organization, ensure effective and independent evaluation, operate transparently, and improve human resource management. ADB continuously monitors the implementation of its reforms and their overall impact on its effectiveness and reports on its performance annually through the Development Effectiveness Review. Several independent think tanks and academic institutions have recently undertaken studies to analyze the quality of aid and assess relative donor performance. ADB was rated highly for relevance, effectiveness, specialization, and alignment and harmonization; in some cases, even outperforming comparator organizations.

Pakistan | Putting Girls First



Hajra (left) grew up poor in rural Pakistan. Despite her intelligence, her teacher says she would never have gotten past grade 5 without the Middle School Program.

Hajra, a 13-year-old eighth grader, is a top student at Sukkur Middle School. But she would not have likely been there if not for one factor, says her teacher Manzoor Ali Abbasi. "None of the girls in this class would have gotten past grade five without the Middle School Project," he says. The Middle School Project, a program to help Pakistan's middle schools, specifically targeted female students. Financed by a \$78 million ADF loan, the project provided a broad range of support to middle schools in Pakistan. As part of the project, Manzoor—along with more than 15,000 other teachers—attended a 4-week training course, acquiring new skills that made him a better teacher. "Before, I only used the blackboard, but now the students work in pairs and teaching is interactive so they learn much more," he says. The provision of textbooks, library books, and guides for teachers also made a big difference, with 26,700 teacher's handbooks provided to teaching staff in the three provinces. Four weeks of in-service training was given to some 5,500 untrained teachers to improve subject competency; and 15,500 middle school teachers received 10 days training in the revised curriculum, with 4,000 middle school head teachers trained in a 6-week course on school management and supervision. By the time it was completed, the project had benefited 70,452 students and upgraded 609 primary schools, including 331 girls' schools, giving thousands of bright young girls like Hajra the opportunity for a better education and the opportunities provided by one.

Samoa | Power to the People



Rouena Mulipola has seen her business improve, thanks to more manageable electricity costs.

Rouena Mulipola, a resident of Apia, Samoa, has seen her business benefit from a more efficient electricity distribution system in her area. The system includes a pre-paid meter that allows her to monitor her usage more closely while buying power in smaller batches when necessary. "I'm a seamstress and work from home. Before, I could not cope with the bills and used to get behind with the payments. Now I am free from debt and can see exactly what I am spending. I can use electricity more wisely (and) I am also bringing the cost down," she says. Mulipola is feeling the impact of the \$100 million Power Sector Expansion Project that includes a 32-year ADF loan of \$27 million and a grant of \$15 million jointly financed by the Electric Power Corporation of Samoa (\$12 million), the Government of Australia (\$8 million), and Japan Bank for International Cooperation (\$38 million). The project is making electricity delivery more efficient by reducing system losses while improving the electricity agency's financial management.

Bhutan | Bringing Skills to the Countryside

Chimi Yuden does not mind getting her hands dirty. The 19-year-old from the eastern Bhutanese city of Trashigang spent 8 months in an auto-repair training course in the capital city of Thimphu after identifying a career opportunity. "There are more vehicles on the roads now," she says. "This is a good career for the future." When she graduates and returns to Trashigang, she will be the city's first female auto mechanic. She said many of her classmates work on the farms or are homemakers, but she is proud to have taken a different path. "This is a chance to earn more than I could on the farm," she said. Yuden benefited from the Basic Skills Development Project, financed by \$7 million from the ADF, \$2.5 million from the Government of Germany, and \$3 million from the Government of Bhutan. The project, which champions vocational training programs, supported the Thimphu Institute of Automobile Engineering, established in August 2007, along with five other project-supported training institutes. As a result of the project, vocational training capacity in Bhutan has increased from 400 to 1,193 students. The institute not only teaches new mechanics but also serves as an example for other auto shops.



Yuden (right) will be the first female auto mechanic in her town through the ADF-supported Basic Skills Development Project.

Cambodia | Source of Life



For Hong Yoeun, getting clean water is much easier as a result of the new community pond in her village of Tek La-ak.

In her 35 years, Hong Yoeun had never lived in a place with running water. Trudging to and from the nearest source has been part of the daily grind for as long as she can remember. But now, getting clean water is much easier. A large, rectangular pit that fills with rainwater has been built in the middle of her village in Cambodia's Kampong Chhnang Province. Before the community pond, Hong Yoeun, with two of her four children trailing behind her, would hike to the nearest source, then lug the dripping pails back to the house. Hong Yoeun often had to repeat her trip thrice a day. Nowadays, she benefits from the Tonle Sap Rural Water Supply and Sanitation Sector Project, which was financed through an \$18 million ADF loan, \$2.06 million from the Government of Cambodia and \$3.94 million from project beneficiaries. For Hong Yoeun, the benefits have been tremendous. "In the past, I had to go a long way to get water three times a day. I would get home and it would already be dark, but I would still have to make rice for the children. Now we have the pond nearby, and I can feel more relaxed. I've actually got time to do other things."

The Impact of ADF

Over the past 6 years, ADF has helped some of the poorest countries in Asia and the Pacific. The results speak for themselves.

In the education sector, ADF

- helped build or upgrade more than 135,000 classrooms
- helped train more than 660,000 teachers
- provided assistance that benefited more than 21 million school students

In the energy sector, ADF

- helped install 300 megawatts of new generating capacity
- built or upgraded more than 34,127 kilometers (km) of transmission and distribution lines

In the transport sector, ADF

- helped build or upgrade more than 44,300 km of roads, which benefited more than 211 million people through faster travel times, new economic opportunities, and improved access to essential services

In the water sector, ADF

- installed or rehabilitated more than 17,800 km of water supply pipes
- upgraded sanitation in more than 269,000 households, resulting in health and livelihood gains for more than 920,000 households
- Improved more than 1.8 million hectares of land as a result of irrigation, drainage, and flood management initiatives

In the finance sector, ADF

- helped increase the number of new microfinance accounts and borrowers to more than 2.7 million
- expanded the number of new small- and medium-sized loan accounts and borrowers to top 400,000

ADF

- supported projects and programs in 18 countries between 2005 and 2010, which directly target gender equality and women empowerment

ADF

- supported regional cooperation initiatives in 17 countries between 2005 and 2010, which helped countries work together to achieve rapid and sustainable growth and reduce poverty.

The Asian Development Fund

Asia and the Pacific has made remarkable progress in recent decades. Despite this success, there are parts of the region that have not shared as fully in this prosperity and development. The Asian Development Fund is a crucial financing source to help these countries achieve the Millennium Development Goals, reduce poverty, and tackle development challenges.

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to two-thirds of the world's poor: 1.8 billion people who live on less than \$2 a day, with 903 million struggling on less than \$1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

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