Since ancient times, Istanbul has served as the bridge between Europe and Asia. So its choice as the venue for the Asian Development Bank (ADB)’s 38th Annual Meeting in May seemed particularly apt, representing a meeting point—both physical and symbolic—for the Governors from ADB’s developed and developing member countries. Adding to the palpable excitement surrounding the choice of host city were several important firsts this year—the first ADB Annual Meeting to be held in Turkey, the first to be held in Europe since 1998, and the first for the new ADB President, Haruhiko Kuroda, who took office on 1 February.

The meeting venue, the Lütfi Kirdar Istanbul Convention and Exhibition Center, was situated in the heart of the European side of the metropolis, with a vantage point over the Bosphorus. It provided a secure venue for the Annual Meeting’s 2,300 participants, who included ADB Governors, official delegations of ADB members, and representatives of multilateral and bilateral institutions, the global financial community, civil society, and media.

They gathered on 4 May for an official opening prefaced by a vibrant blend of classical and Turkish music performed by an orchestra, soloists, and a mass children’s choir. After this, Mr. Kuroda was joined on the podium by Ibrahim H. Çanakci, Turkey’s Undersecretary of Treasury and Chair of the ADB Board of Governors, and Turkey’s Minister of State in charge of Economy Ali Babacan.

In his opening address, Mr. Babacan praised ADB’s record as a hub of development financing, technical assistance, and its role in facilitating regional integration, as well as its response to the December 2004 tsunami disaster. “Perhaps more than any other institution, it has a deep and broad understanding of the issues facing developing Asia,” he said. “ADB is uniquely positioned to share lessons learned with its developing member countries.”

Mr. Çanakci pointed out that ADB and Turkey have a strong partnership in improving the lives of the poor of Asia and the Pacific. “As a country that bridges the two continents of Asia and Europe, this is an issue of great importance to Turkey, and increasingly so as our world becomes more globalized and interconnected,” he said.

Interconnection was a theme also taken up by Mr. Kuroda, who said in his opening address to the Board of Governors that Asia and the Pacific was in the midst of a far-reaching transformation.

“Sustained, rapid growth is fundamental to achieving the shared vision of a region free of poverty,” he said. But growth alone was not enough. “I see us
moving into a new era of development—more interdependent, more integrated, and more inclusive,” he said. “An era where nobody is left behind. Recognizing that what benefits one can benefit all, countries in developing Asia are pursuing regional cooperation.”

The issue of Asian regional integration was arguably the external issue that loomed largest during the week, especially given Mr. Kuroda’s recognized expertise on the issue. Generating much press excitement therefore were measures to strengthen financial cooperation announced by the 13 Association of Southeast Asian Nations (ASEAN) + 3 Finance Ministers, who held a meeting on the sidelines. In a further indication of moves toward growing integration in the region, there was also an inaugural informal meeting of South Asian Financial Ministers in Istanbul, and a meeting of Pacific governors of ADB.

Regional economic integration was also a theme taken up by the Governors’ Seminar and Turkey Day presentations, among a high-level series held over 5 days. Other seminars tackled such issues as Asia’s capital markets, the role of local credit rating agencies, the region’s economic outlook, Central Asian infrastructure, and “Financing the City.”

Official events during the week included a program for representatives of nongovernment organizations, such as panel debates, an open forum, and meeting with the ADB President and ADB senior staff. In between a busy schedule of business sessions, seminars, and side events, Mr. Kuroda also held a series of bilateral meetings with delegations to enhance relations with ADB members.

Away from official business, the Turkish Government and people of Istanbul proved themselves gracious hosts. Highlights included the official reception hosted by the Government amid the splendor of the 19th century Dolmabahce Palace. The organizers also staged a spectacular cultural event, Fire of Anatolia, a traditional and modern mix of dance and music from different regions of Turkey. Following the show, Turkish Prime Minister Recep Tayyip Erdogan gave a speech on Turkey’s growth and prospects, and its relationship with ADB. “We must spread the light rising from Asia, and share and adopt the problems and sufferings of Asia as well as its prosperity,” he said.

During the official business sessions, Governors mirrored Mr. Babacan’s sentiments in expressing their strong appreciation to ADB for its leadership role and quick response in addressing the aftermath of the tsunami. They requested ADB to work with development partners to ensure integrity in the use of funds and to monitor the effectiveness of operations financed by ADB’s Asian Tsunami Fund.

They, too, noted that developing Asia had entered a new era of development characterized by dynamic growth, increased interdependence, and an unprecedented prominence in the global economy. Governors stressed the urgency of addressing Asia’s large infrastructure needs, ensuring inclusive economic growth, and promoting good governance.

They also noted the critical importance of the private sector as an “engine for growth” in the region.

In the context of these broad regional challenges, Governors urged ADB to increase its promotion and leadership of regional cooperation and economic integration; strengthen its ordinary capital resources and increase the quality of its financial assistance; and work with governments, development partners, and the private sector to meet priority infrastructure investment needs.

“ADB is firmly committed to reducing poverty and achieving the Millennium Development Goals in Asia and the Pacific,” President Kuroda told the Governors in his closing remarks. “In this new era, ADB must become a more relevant, more responsive, and more results-oriented institution, serving the interests of all shareholders.”

“ADB is uniquely positioned to share lessons learned with its developing member countries.”

Ali Babacan, Turkish Minister of State in charge of Economy

We must spread the light rising from Asia, and share and adopt the problems and sufferings of Asia as well as its prosperity.”

Recep Tayyip Erdogan, Turkish Prime Minister
Your Excellencies, Ladies and Gentlemen: I am delighted to join the Chairman, Mr. İbrahim H. Çanakçı, Undersecretary of Treasury of Turkey, in welcoming you to the 38th Annual Meeting of the Board of Governors of the Asian Development Bank (ADB).

We are honored by the presence of the Honorable Ali Babacan, Minister of State in charge of Economy of Turkey, at our gathering this morning.

I would like to thank the Government and the people of Turkey for their warm hospitality in welcoming ADB to Istanbul, a city once known as the capital of capital cities, and one which literally spans two continents. And I would like to extend a warm welcome to all representatives of our development partners, the global financial community, civil society, non-government organizations (NGOs), and the media.

Let me also express my deep condolences to all member countries that lost citizens in the recent tsunami. To the Governors of the devastated countries, be assured of ADB’s lasting commitment to the recovery efforts. And to all ADB shareholders, sincere thanks and appreciation for your generosity in assisting these efforts.

Asia and the Pacific:
A Region of Contrasts
Ladies and gentlemen: In the city of

A NEW ERA OF DEVELOPMENT FOR ASIA AND THE PACIFIC
BUILDING ON MOMENTUM
Today, at our 38th Annual Meeting, we reaffirm our shared vision of an Asia and Pacific free of poverty. A vision of thriving modern economies well-integrated with each other, and with the world.

Sustained, rapid growth is fundamental to achieving this vision. In developing Asia, a 1% increase in household income is associated with a 2% decline in poverty. But growth alone is not enough. To fully realize our vision, we see us moving into a new era of development—more interdependent, more integrated, and more inclusive. A new era of development where nobody is left behind.

This is a moment full of promise. Developing Asia is in the midst of a fundamental and far-reaching transformation. It is no longer on the periphery of the global economy—it is central to global economic progress. Based on purchasing power parity, developing Asia now accounts for almost 30% of global gross domestic product.

Recognizing that what benefits one can benefit all, countries in developing Asia are pursuing regional cooperation. Free trade agreements are proliferating. Intra-regional trade now accounts for nearly half of all trade in Asia.

People in developing Asia no longer aspire to development—they expect it. Governments are implementing key policy reforms, improving regulatory frameworks, and strengthening internal governance and institutions. They are seizing opportunities, and achieving unprecedented development performance. And the international community has committed to investing in developing countries that demonstrate results.

The Millennium Development Goals (MDGs) have set the targets to cut poverty in half and raise living standards around the globe. Can the MDGs be achieved in Asia and the Pacific? That is up to all of us. But one thing is clear: if they are not achieved in Asia, they will not be achieved at all. And if they are, the benefits will be profound—not only for Asia, but also for the world.

A New Era of Development

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Todays President's Address

Ladies and gentlemen: Over the past 4 decades, ADB has invested over $113 billion in Asia and the Pacific, including $5.5 billion in loans and technical assistance last year. ADB has made many contributions to development in the region and in our developing member countries (DMCs). We should all be proud of the work we do every day to contribute to Asia's growth and prosperity.

But dynamic changes in the region also mean that ADB must change. To assist our DMCs in achieving the MDGs, the new era of development requires that ADB become more relevant, more responsive, and more focused on results.

As you know, ADB’s reform agenda is a comprehensive and challenging framework for institutional change and renewal. After 4 months in office, I am confident in the progress we are making. We will continue to build upon this progress to further strengthen our development effectiveness. Let me briefly describe the principles of relevance, responsiveness and results, as they apply to ADB.

Relevance

To remain relevant in the new era of development, ADB must address some fundamental challenges, both internally and in our DMCs. For example, we are concerned that our lending levels have been stagnant, that the net transfer of resources to some countries has turned negative, that our operations are sometimes too broad in scope, and that we are not maximizing the significant expertise and knowledge embodied in our institution.

We must take on a larger role in helping close developing Asia’s massive infrastructure financing gap, estimated at more than $250 billion a year.
other sectors.

Our next Medium-Term Strategy will set out the specific priorities we intend to address over the next 5 years. These priorities will be achieved within the context of our unique role in promoting closer regional cooperation and integration. To do so, we will build upon our existing sub-regional initiatives, such as those in the Greater Mekong Subregion, Central Asia, and South Asia. We will deepen our partnerships with regional bodies, such as ASEAN + 3, in order to improve trade and financial linkages.

To be responsive, we must be timely in all our operations....To be responsive, we must be innovative....To be responsive, we must be more flexible

The recently established Office of Regional Economic Integration will serve as a focal point for these efforts, and will further enhance our role in promoting regional cooperation and integration. As we move forward, it is essential that inclusiveness underpins these efforts in order to reduce income disparities, and to ensure the benefits of growth are more equitably distributed, both across countries, and within countries.

Responsiveness

Ladies and gentlemen, let me talk about the principle of responsiveness.

The round-the-clock work of our staff in response to the tsunami showed me what ADB is capable of. The $600 million Asian Tsunami Fund was truly a collective effort to mobilize financial resources so desperately needed by tsunami-affected DMCs. But the new era of development requires more.

To be responsive, we must be timely in all our operations. This year, in a concerted effort to reduce the preparation time for projects and improve project implementation, we will introduce a number of changes to our business processes and internal procedures. We have already streamlined some procedures for procurement and consulting services, and additional changes will be submitted to our Board soon.

To be responsive, we must be innovative. Last year, to assist bond market development, ADB launched its debut local currency bond issues in India and Malaysia. This year, we plan to issue local currency bonds in Thailand, Philippines, and People’s Republic of China. We are developing, and will soon pilot test, new financial instruments and modalities, including local currency financing, sub-sovereign lending, refinancing, and a multitranche financing facility. To support this initiative and to strengthen our institutional profile, we plan to establish an independent, comprehensive credit and financial risk management unit.

To be responsive, we must be more flexible. This includes less restrictive cost-sharing arrangements and expanding items that are eligible for ADB financing. This will also harmonize ADB’s financing regime with that of other multilateral development banks.

Results

Ladies and gentlemen, ultimately the value we add to our borrowing member countries and our shareholders depends on achieving demonstrable results.

All of us at ADB are accountable for ensuring that we achieve results. Our Board of Directors is accountable for results. Our management team is accountable for results. And ADB staff members are accountable for results.

As part of the bank-wide implementation of the Managing for Development Results framework, our focus is shifting from activities and inputs to outcomes and impacts. At the project level, for example, our new design and monitoring framework helps identify results early on, along with more specific indicators to monitor progress. We have also prepared results-based country strategies and programs on a pilot basis and will expand this initiative to all of our DMCs.

We are applying our new Performance-Based Allocation policy to allocate Asian Development Fund IX loan and grant resources to our ADF borrowers on the basis of economic management, socially inclusive development, governance, and portfolio performance. And our new Human Resources Strategy includes staff performance plans to promote increased accountability at the individual level, and as part of staff contributions to teams, divisions, and departments.

As we move forward, we are committed to adhering to the highest levels of accountability and transparency. Our new Public Communications Policy places ADB at the forefront of multilateral development banks in terms of transparency and access to information. It gives the public improved access to documents and commits us to greater openness and dialogue with stakeholders. The Office of External Relations will soon be upgraded to a department, and our representative offices will be placed within the new department. Both of these actions will strengthen ADB’s external relations.

To achieve results, we must continue the fight against fraud and corruption. As we work with our DMCs to strengthen their key accountability institutions, we must also guard against corruption and fraud within the Bank and all ADB-financed projects. The newly established Integrity Division in the Office of the Auditor General is but one example of this ongoing effort.

Concluding Remarks

Excellencies, partners and friends: Today, I have spoken of a more integrated and inclusive Asia and Pacific—a new era of development, characterized by tremendous challenges, but also by a wealth of opportunities. It is an era in which we are all engaged, to which we are all committed. Against this backdrop, I have outlined some of the priorities for achieving results as a regional, relevant, and responsive organization.

ADB is your institution, and your continued support and engagement are essential. I look forward to hearing your views and engaging with you on how ADB can best assist the region in meeting its challenges and in fulfilling its tremendous potential. And I ask you to join me in charting the course for our institution to help build a future of hope, opportunity, and prosperity for all the people in Asia and the Pacific.

Thank you.
It is a great pleasure to welcome the Asian Development Bank (ADB), member country delegations, distinguished guests, and participants to this 38th Annual Meeting in the ancient and beautiful city of Istanbul. As you know, the honor of hosting this meeting in Turkey has been long awaited and eagerly anticipated. I extend my sincere wishes to all of you for an enjoyable and productive week.

ADB and Turkey have a strong, if relatively young, partnership. It is a relationship characterized by deep mutual respect and friendship, and of course by a shared passion for improving the lives of the people of Asia and the Pacific. As a country that bridges the two continents of Asia and Europe, this is an issue of great importance to Turkey, and increasingly so as our world becomes more globalized and interconnected. We value our involvement with ADB and look forward to continuing our work together.

As the Chair of the Board of Governors, I would like to officially recognize and welcome ADB’s new President, Mr. Haruhiko Kuroda, who assumed office on 1 February this year. President Kuroda was unanimously elected to his post by the Board of Governors following the resignation of former President Mr. Tadao Chino. Mr. Kuroda comes to ADB with a wealth of experience and a strong commitment to foster continued growth, development, and poverty reduction in the Asia and Pacific region. On behalf of the Board of Governors, I extend our warmest congratulations to Mr. Kuroda on his appointment and I am confident that under his able leadership, ADB will continue to make a significant contribution to the prosperity and well-being of the people of Asia and the Pacific.

A Strong Partnership

ADB has a vital role in working with developing Asia to achieve the MDGs.
Governors, I would like to wish President Kuroda all the best in furthering this critical mission. I should also thank former President Mr. Chino for his dedicated and committed work and wish him well for the future.

The Asian Tsunami
Fellow Governors, distinguished guests, the year 2004 will stand out in history as the year the great Asian tsunami shook the world. I believe I speak for all Board members in offering deep condolences to all member countries that were struck by significant natural disasters over the last 12 months. The earthquake and tsunami of 26 December was, of course, unprecedented in scale and impact. For the hardest-hit country of Indonesia, subsequent major earthquakes have further deepened this tragedy.

Rehabilitation and reconstruction will take years and I want to assure all affected countries of ADB’s commitment and ongoing support in these efforts.

I am pleased to note that ADB has responded to this matter promptly, and worked closely with governments, communities, partner agencies, civil society, and others to ensure that the recovery efforts are well coordinated and meet the needs of the survivors.

The Annual Report
Distinguished guests, let me turn to the Annual Report, which outlines in detail ADB’s accomplishments of 2004. I will touch on just a few highlights.

As you know, a review of ADB’s poverty reduction strategy, which was completed in July 2004, confirmed the relevance of its three pillars: pro-poor sustainable economic growth, inclusive social development, and good governance. The review also outlined a number of areas to be strengthened in order to achieve greater development effectiveness.

I am pleased to note that ADB has taken action on several fronts to respond to the review’s recommendations. For example, ADB’s country strategies and programs are more closely aligned with national poverty reduction strategies and the Millennium Development Goals (MDGs). All new country strategy and programs will be built on a results framework, and will include progress indicators and monitoring mechanisms.

I am also pleased to note that ADB adopted a Pacific Strategy, covering all operations of the Pacific Department. As we know, the small countries that dot the Pacific face many challenges in achieving sustainable development. The new strategy focuses on private sector development, economic efficiency, social services, and good governance.

To further improve its development effectiveness, ADB also moved forward on a number of management reforms in 2004. To date, ADB has strengthened performance-based allocation of Asian Development Fund resources, established a results management unit, and completed an independent assessment of the 2002 reorganization. It is also noteworthy that ADB developed a new Human Resource Strategy, as an integral part of ADB’s focus on performance management. I commend the management and staff for these initiatives and look forward to further progress in the year ahead.

All in all, I believe these reforms have made ADB a stronger institution that is better able to assist developing member countries (DMCs) in meeting their development goals. In addition to those initiatives, ADB’s accountability mechanism became fully operational in 2004, and the Operations Evaluation Department began reporting directly to the Board of Directors.

The new Public Communications Policy, which was designed to enhance transparency and accountability, was the subject of extensive consultation with a broad range of stakeholders. The policy was approved by the Board just 2 weeks ago and comes into effect on 1 September.

It is clear to see that ADB will continue to be a major source of financing for development, and also an increasingly important source of expertise.

As a whole, the region is on track to reduce by half the number of people living in extreme poverty by 2015. But for most of developing Asia, addressing the full range of MDGs will remain a huge challenge. As the region’s partner in development, ADB has a vital role in working with developing member countries to reach their targets for poverty reduction, education, gender equality, child and maternal health, HIV/AIDS, and environmental sustainability. The MDGs are clearly reflected in ADB’s Long-Term Strategic Framework and in its poverty reduction strategy.

ADB has a number of strategies and policies to guide this important work. Let me briefly mention just three.

First, as we look to the future, it is clear to see that ADB will continue to be a major source of financing for development, and also an increasingly important source of expertise. Over the last 38 years, ADB has built considerable development expertise in the Asia and Pacific region. Perhaps more than any other institution, it has a deep and broad understanding of the issues facing developing Asia. ADB is uniquely positioned to share lessons...
learned with its DMCs.

Second, ADB must strengthen and enhance its role in the area of regional and subregional cooperation and integration. As we know, regional cooperation initiatives have proliferated across Asia and the Pacific in recent years. The successful Greater Mekong Subregion has been one of the fastest-growing regions in the world. Poverty has declined in the subregion and per capita GDP has grown by almost one third. Similar subregional partnerships are coming together in South, Central, and Southeast Asia as countries increasingly recognize the benefits of regional cooperation. I commend ADB’s leadership in these initiatives and look forward to seeing more in the years ahead.

Third, infrastructure remains a significant challenge across the region. Modern, reliable infrastructure is a fundamental building block for sustainable economic growth and investment. People who lack access to markets, reliable sources of energy, safe drinking water, and communication networks have few opportunities to participate in development and lift themselves out of poverty. This is particularly critical in rural areas, where rural infrastructure investments have been shown to have significant direct effects on rural poverty reduction. But with the current rapid urbanization of Asia, investing in cities also takes on a new urgency.

Concluding Remarks

Distinguished guests, the Asia and Pacific region has experienced tremendous economic growth in recent decades, leading to substantial poverty reduction. But many challenges remain. As owners and shareholders of this institution, it is up to all of us to look ahead to the horizon, anticipate the development needs of the future, and support ADB to achieve its important goals. The lives of millions of women, men, and children depend on our determined action. The worthy goals of the poverty reduction strategy—pro-poor sustainable economic growth, inclusive social development, and good governance—can only be achieved with all of our support.

Let me conclude by offering my very best wishes for a successful Annual Meeting, and for another year of progress in reducing poverty across Asia and the Pacific.

Best of Both Worlds

ADB can draw on Turkey’s experience in working with economies in transition in Asia and the Pacific

By Graham Dwyer
External Relations Specialist

Turkey can play an important role as a conduit for sharing Europe’s experiences and knowledge with Asia and the Pacific on regional integration, Asian Development Bank (ADB) President Haruhiko Kuroda told a seminar in Istanbul.

“While the drivers of economic integration in Asia are different than those in Europe, the European Union nevertheless has many lessons that Asia can draw on in fostering regional integration,” Mr. Kuroda said.

“ADB is keenly interested in strengthening economic relations between Asia and Europe. With its unique geographic location and its understanding of cultures across both continents, Turkey is clearly well positioned to play a lead role in this process.”

He was speaking at the start of the Republic of Turkey Day Seminar, held on the eve of ADB’s 38th Annual Meeting of the Board of Governors.

The full-day seminar included speeches by Chair of ADB’s Board of Governors and Turkish Undersecretary of Treasury Ibrahim H. Çanakci and Minister of State for Economy Ali Babacan, and six presentations by Turkish officials, on topics ranging from cultural heritage and experience of reforms, to foreign direct investment and trade policy.

Mr. Kuroda said that as Turkey was reducing debt, lowering inflation, enhancing financial sector stability, and promoting continued economic growth, ADB would be following its progress.

“The reforms being undertaken in Turkey are also areas where ADB provides assistance to its developing member countries,” he said. “Thus, Turkey’s experience will be most valuable to us as we work with economies in transition, and with countries that are tackling similar reforms.”

MOVING UP Turkey has become one of the world’s fastest-developing economies, registering 9.9% growth in its 2004 gross national product.
A Fresh Perspective

NGO and civil society representatives engaged in lively debate and interaction with ADB’s President and staff during an Annual Meeting special program

By Graham Dwyer
External Relations Specialist

ongovernment organizations (NGOs) participated in nearly two thirds of Asian Development Bank (ADB)-approved loan projects during 2004, ADB President Haruhiko Kuroda told a special NGO session before ADB’s Annual Meeting in Istanbul in May.

In a meeting with 40 NGO representatives, Mr. Kuroda pointed out that ADB also provided direct funding to 60 projects under a pilot small grants scheme supporting NGO-run initiatives in 15 countries.

“The relationship between an institution like ADB and advocacy NGOs can sometimes be tense and even conflictive,” Mr. Kuroda told participants. “A lively, ongoing debate about development helps to ensure that voices are heard, and that the diversity of views on complex issues is taken into consideration.”

He said he appreciated NGO perspectives on how ADB can improve accountability and transparency in its project work. “NGOs play an important role in ADB-assisted projects,” he said. “We regularly draw on the strengths of NGOs as experts, as sources of project models, as advocates for the poor, and as a source of alternative viewpoints.”

Many NGOs had also given feedback on the early operations of ADB’s accountability mechanism, approved two years ago, he said. “Your comments will be an important contribution to a review of the mechanism due to take place sometime after December 2006,” he said.

He also pointed out that ADB had recently approved its Public Communications Policy, which was developed after extensive public consultations and provides improved access to documents and commits ADB to greater openness with stakeholders.

At the session, NGO representatives quizzed Mr. Kuroda on various issues, ranging from problems of corruption, ADB’s operations in Nepal, its accountability mechanism, and release of funds for tsunami assistance, to the next step in achieving the Millennium Development Goals, and the dangers of climate change.

Mr. Kuroda said he would be seeking their ideas for building upon the current ADB-Government-NGO Cooperation Framework 2003-2005, which has served as a road map for tripartite collaboration in the context of ADB-assisted activities.

Bart Édes, Head of ADB’s NGO and Civil Society Center, at an NGO Open Forum the previous day, stressed that ADB had come a long way in its partnership with civil society since 2003, when the framework began implementation.

“Civil society organizations are among our key partners in development,” he said. “We will be seeking their support in forging a new medium-term action plan for cooperation to make our partnerships even more effective through 2010.”

NGO and ADB representatives deliberated on issues ranging from governance and corruption to aid effectiveness and sustainable development during four panels organized as part of the Annual Meeting’s NGO program.

At a session on NGO-business partnership for sustainable development, representatives of environmental NGOs, including WWF International, and private sector companies discussed innovative ways for NGOs and businesses to collaborate to promote sustainable development.

A panel discussion on ADB safeguard policies was also held in which NGO representatives raised concerns about ADB’s application of policies on indigenous peoples, involuntary resettlement, and the environment in its operations. Bindu Lohani, Director General of ADB’s Regional and Sustainable Development Department, acknowledged the need for ADB to focus more effort on implementing ADB’s safeguard policies. Red Constantino, Greenpeace representative, called for ADB to bring the issue of climate change—and the need to redirect policies toward renewable energy—to the governments of its member countries.
A MUTUAL UNDERSTANDING
ADB and GDC sign agreement to enhance opportunities for collaboration

The Asian Development Bank (ADB) and the German Development Cooperation (GDC) signified their intent to cooperate with each other on areas of mutual interest, and to enhance opportunities for collaboration.

ADB President Haruhiko Kuroda and the Permanent Secretary of the German Ministry for Economic Cooperation Uschi Eid signed a letter of intent during the President’s meeting with the German delegation immediately before the opening ceremony of ADB’s 38th Annual Meeting of the Board of Governors in Istanbul.

“ADB believes that collaboration with GDC will strengthen institutional capacities in both organizations, and enhance the efficiency and effectiveness of the use of their respective resources,” says Mr. Kuroda.

The two institutions will explore possibilities for effective collaboration in areas such as education, water supply and sanitation, energy, transport, health and nutrition, finance, urban development, and environmental sustainability.

The collaboration between ADB and GDC may involve cofinancing investment projects and policy programs, developing new financing instruments, sponsoring joint seminars or conferences, promoting staff exchanges, as well as regularly exchanging information on their respective regional and country programs, and on other areas of common interest.

GDC aims to achieve a global structural and peace policy, help resolve crises and conflicts in a peaceful manner, ensure that scarce resources are more equitably shared, and preserve the natural environment for coming generations. It also aims to help reduce poverty.

At present, GDC comprises the Federal Ministry for Economic Cooperation and Development, Kreditanstalt für Wiederaufbau Development Bank, Deutsche Gesellschaft für Technische Zusammenarbeit, Capacity Building International, German Development Service, Centre for International Migration, and German Investment and Development Company.

Development in the Pacific

Pursuing regional cooperation and economic integration key for progress in the Pacific region

By Sandra Lodoen
External Relations Specialist

Pacific countries need to provide a hospitable environment for private investment and job creation, Asian Development Bank (ADB) President Haruhiko Kuroda told a meeting of Pacific Governors of ADB on the eve of the opening of the 38th Annual Meeting.

Mr. Kuroda said that poverty is a growing concern in many parts of the Pacific, with hardship and vulnerability a common feature of life in many rural communities.

Last year, ADB approved a new Pacific Strategy, which provides a framework for addressing key constraints to economic growth and poverty alleviation. The Strategy underscores the need for good governance, sound policies, capable human resources, and appropriate infrastructure.

Another key element involves reorienting public sector management and resource allocation to improve the quality and reach of public services.

“In the coming years, ADB will sharpen its focus in the Pacific to make sure that our resources are directed at addressing these objectives,” Mr. Kuroda said. “If your Government is keen to pursue these aims, I can assure you that ADB will strive to be a valuable partner.”

Mr. Kuroda also highlighted the importance of pursuing regional cooperation and economic integration within the Pacific region.

“I am of the strong belief that the Pacific is a region where, despite the diversity that exists among the countries, there is significant potential for mutual gain from working together, and I believe that ADB can be a catalyst in this effort,” he said.
About $40 billion per year is needed for urban infrastructure investments to meet the demands of the explosive urbanization seen in Asia over the past 4 decades, seminar participants heard in Istanbul.

“In the mid-1960s, only one person in five lived in towns and cities,” Bindu Lohani, Director General of the Asian Development Bank (ADB)’s Regional and Sustainable Development Department, told the first of a series of ADB seminars on Financing the City. “Today it is one in three, and by 2020, it will be one in two.”

Three seminars examined the problems and opportunities presented by the projected growth of Asia’s urban centers, as well as the potential for public-private partnerships and new approaches to local currency financing.

In the first seminar, Problems and Opportunities, Mr. Lohani explained that city growth has been largely unplanned and uncontrolled, with a plethora of problems ranging from inadequate water supply to festering slums. Despite this, he said, cities are the engines of national economic growth, citing Bangkok, which generates about one third of Thailand’s gross domestic product (GDP).

Another speaker, Kadir Topbas, Mayor of Istanbul, echoed the importance of cities to the overall national economy, saying that Istanbul accounted for 3% of Turkey’s GDP. Yet Istanbul, a city rich in culture and history, needs to substantially upgrade its transportation and water infrastructure. Each of these programs will cost the city an estimated $4 billion–$5 billion.

“We need to learn from the experience gained by other cities,” he said. “Networking among city officials from Asia and elsewhere is vital to avoid repeating the mistakes of the past and to identify new and successful ways of doing things.”

One major problem, highlighted by Freddie Tinga, Mayor of the City of Taguig in the Philippines, is that cities have to fiercely compete for limited financial resources. To gain an advantage, he said that a city’s “product” must be perceived by the investment community as worthy of their attention.

Private investments can be tapped to help bridge the resource gap in the infrastructure financing needs of developing countries, the second seminar on Private-Public Sector Partnerships heard. Companies engaged in public-private partnerships presented various modalities through which the private sector can help finance urban infrastructure needs.

For example, Foo Hee Kiang, Chief Operating Officer of the Hyflux Group, which has undertaken a desalination project in Singapore, explained the background of the drinking and industrial water sector in Singapore, the structuring of the project, and the allocation of risks between the project company and the off-taker for the water—the Public Utilities Board of Singapore.

Another speaker, S. Ramakrishnan, Executive Director of Finance for Tata Power Company in India, outlined the context of the privatization of electricity distribution in New Delhi and presented an innovative funding arrangement to cover losses during the transition period.

At the third seminar on New Approaches to Local Currency Financing, project developers, sponsors, and banks showed how developing long-term cross currency swaps will help bring in confidence and trust in local capital markets to provide long-term local currency funding to finance urban infrastructure.
Sustaining the Boom

Infrastructure investment in Central Asia needs to be doubled or tripled from the current figure of $1 billion per year to sustain growth, a seminar hears.

By Ganeshan Wignaraja
Senior Economist

Infrastructure investment in Central Asia needs to increase significantly to around $2 billion–$3 billion per year in 2005–2010 to sustain growth and reduce poverty, the head of ADB’s operations in the subregion told a high-level seminar in Istanbul.

Director General of the Asian Development Bank (ADB)’s East and Central Asia Department Satish Rao said that infrastructure spending, excluding oil and gas, needed to be raised from the present figure of about $1 billion per year.

He was speaking at a seminar on Private Sector Participation in Infrastructure in Central Asia, held on the final day of ADB’s Annual Meeting in Istanbul.

“The region is booming, with the gross domestic product accelerating to 9.2% in 2002–2004, and Soviet era railways, roads, oil pipelines, and telecommunications need urgent modernization to improve Central Asia’s connectivity with international markets,” Mr. Rao said.

“Increasing demand and limited government capacity opens up potential for private sector participation in infrastructure in the region.”

At the seminar, Aidar Arifkanov, Kazakhstan’s Vice Minister of Finance, highlighted the strong economic performance of Kazakhstan, the region’s largest economy, due to high oil prices, good macroeconomic management, and inflows of foreign direct investment.

He said that private sector participation could usefully complement state investments in infrastructure in Kazakhstan by providing new capital and management expertise.

“Key areas for private sector participation might include energy sector infrastructure, air transport, rail transport, telecommunications, and water supply,” he said.

Lloyd Paxton, Chairman of Air Astana, underlined the importance of public-private sector partnerships in air transport in Central Asia. He said that “Air Astana was established as recently as 2001 as a Kazakhstan-British joint venture but has contributed over $30 million to Kazakhstan’s state budget.” This represents a good return on an initial investment of $8.6 million, he said.

Turkey has a special commercial role to play in Central Asia’s infrastructure development, Hilmi Guler, Turkey’s Minister of Energy and Natural Resources, told the seminar, given that it is a country located between the enormous gas reserves of Central Asia and the gas markets of Europe.

“The Baku-Tbilisi-Ceyhan Crude Oil Pipeline and the Bank-Tbilisi-Erzurum Natural Gas Pipeline projects show that the private sector, the state, and development banks can work together in infrastructure development,” he said.

But reducing red tape and other bureaucratic obstacles was essential to small and medium enterprise development and private sector participation in infrastructure in Central Asia, according to Rustom Azimov, Uzbekistan’s Deputy Prime Minister.

He underlined the new opportunities for strategic foreign and local investors in Central Asian infrastructure due to the recently concluded free trade agreement between Kazakhstan and Uzbekistan.

Increasing demand and limited government capacity opens up potential for private sector participation in infrastructure in the region.

Satish Rao, Director General
ADB East and Central Asia Department

Compiled from reports by Robert Dobias, Director, Agriculture, Natural Resources, and Social Sectors Division, Regional and Sustainable Development Department; Seethapathy Chander, Director, Infrastructure Finance Division, Private Sector Operations Department; and Ajay Sagar, Senior Structured Finance Specialist, Private Sector Operations Department.

Short-term alternatives are important, but policy makers need to focus on developing longer-term solutions to hedge currency and maturity risks associated with foreign investments, participants heard. Foreign investors prefer currency swap markets for investing in long-term local currency debt instruments of emerging market borrowers.

Asia could look forward to explosive growth in the years ahead, participants were told. A vibrant capital market is no longer a luxury for Asia. Capital markets are not just debt markets but include swap and equity markets.

“The most far-thinking governments in Asia have encouraged the development of local currency financing solutions even if they lacked a strong incentive to do so,” said one of the speakers, Robert Gray, Chair of the Hongkong and Shanghai Banking Corporation’s Debt Financing and Advisory group.

He said that Asia’s bond markets are expanding rapidly and gathering momentum. Asia should be uniquely equipped to finance its infrastructure investment—roads, water, ports, and power through local currency capital markets. The knowledge that finance can be raised locally on a long-term basis can be a key spur to foreign direct investment.

ADB has proposed several local currency financing solutions to its developing member countries, the seminar heard. One is an innovative cross-currency swap product that allows ADB to inject long-term local currency funding to support infrastructure in developing economies by undertaking a currency swap with the host government.

The swap mechanism is a “win-win” for the developing member country, the borrower, and ADB, participants stressed, with its relative simplicity providing great potential to generate local currency financing across developing countries. ADB will use the inputs from the seminar in the ongoing review of its urban sector strategy this year.
Greater regional cooperation and integration within Asia holds the promise of sustainable growth and reduced poverty in the region, Asian Development Bank (ADB) President Haruhiko Kuroda said at the opening of a seminar in Istanbul.

“One of the lessons of history is that economies that are more market-oriented and integrated with the outside world are more likely to achieve sustained high rates of growth and poverty reduction,” Mr. Kuroda said.

“Increased openness and integration are important contributors to the East Asian economic miracle, and to the dynamism of the People’s Republic of China (PRC) and, more recently, India,” he made his comments at the Governors’ Seminar on a Road Map for Asia’s Economic Cooperation and Integration, held on the eve of the opening of ADB’s 38th Annual Meeting of the Board of Governors in Istanbul.

At the seminar, moderated by ADB Vice-President Liqun Jin, Mr. Kuroda and four ADB Governors shared their perspective on how integration can contribute to Asia’s sustainable economic growth, build resilience to external shocks, and prevent financial contagion.

Mr. Kuroda pointed out that the geographic scope of cooperative agreements has expanded across the different subregions of Asia, so that there are now initial signs of cooperation and integration in Asia as a whole.

He cited as examples the India-SEMINARS

ASEAN Comprehensive Economic Cooperation Agreement, the recent strategic partnership agreement between the PRC and India, the Pakistan-PRC Protocol Agreement on Trade, and the Bangladesh-India-Myanmar-Sri Lanka-Thailand Economic Cooperation (BIMSTEC).

“Closer economic interdependence among East Asian countries, through intra-regional trade and investment and public-private partnerships, is likely to sustain the momentum in monetary and financial cooperation,” he added.

Strengthening regional cooperation would help Asia maximize its advantages of great diversity, vast pool of savings, and capable human resources, Japan’s Minister of Finance Sadakazu Tanigaki told the seminar.

“Regional economic integration can promote economic growth by expanding markets, exploiting the synergies in complementary resource endowments and production structures, and by making the region more resilient to global economic shocks,” said Mr. Tanigaki, who is Governor for Japan at ADB.

“Regional cooperation and integration should contribute to the growth of the global economy and should not be exclusive of other regions,” he added.

ADB should continue to strengthen support for cross-border infrastructure, assist in strengthening regional financial markets, promote intra-regional cooperation on trade, facilitate immigrants’ remittance to their home countries, and encourage policy dialogues on the regional economy to help exchange views on economic policies of each country, he added.

Panelists broadly agreed with his assessment. There was also a consensus among speakers that Asia’s regionalism should be open and complementary to global initiatives such as those under the World Trade Organization. In particular, cooperative agreements should be managed so that trade and investment diversion is minimized.

Alternate Governor for India at ADB Rakesh Mohan noted that “in a world in which regional blocs can often be more effective than individual countries, Asia...
There are merits and demerits to cooperative agreements between nations, he said. "Forging closer links between Asian nations by implementing appropriate institutional mechanisms can lead to substantial enhancement of national, regional, and global productivity and output."

The Governor for Denmark at ADB, Ole Moesby, spoke on the European experience, outlining the three key ingredients to successful cooperation within the European Union (EU). The first was the presence of political will to integrate, he said. The second was the creation of supranational institutions, including a council of ministers, a parliament, a commission, a court of justice, and a central bank.

Mr. Moesby explained that creation of supranational institutions should not be viewed as member states abandoning sovereignty, but instead as exercising it in common with adjacent countries pursuing identical political objectives inside the same social and economic framework.

The third key ingredient was the attempts made to ensure that every member state benefits from the integration process, for example, with mechanisms to transfer resources from the richer to poorer regions in the EU.

Alternate Governor for Canada Alister Smith affirmed that, in drawing lessons for Asia from other regions, it needs to be recognized that "one size does not fit all."

The European model of institution-building and achieving common regulatory standards is one of deep integration and can be a long process, he said. The North America Free Trade Agreement, given sovereignty concerns and federal political structures, has focused on reducing impediments to trade, investment, and financial market linkages, and on creating appropriate dispute settlement mechanisms.

The Latin American Mercosur customs union model falls between the North American model, which is one of free trade, and the European model of common market and currency, he said.

Mr. Smith noted that it is important to achieve a balanced approach that preserves national interests given the relative weight of partners.

Taking a Step Forward

On the sidelines of the Annual Meeting, ASEAN + 3 ministers agreed on measures to strengthen financial cooperation, edging them closer toward enhanced Asian economic integration.

By Graham Dwyer
External Relations Specialist

The measures to strengthen financial cooperation announced by the Association of Southeast Asian Nations (ASEAN) + 3 are a significant step forward toward East Asia’s economic integration, a senior Asian Development Bank (ADB) official said at the 38th Annual Meeting of ADB’s Board of Governors.

“The strengthening of the Chiang Mai Initiative (CMI) and the enhancement of the ASEAN surveillance process will boost the resilience and economic growth of the region,” said Masahiro Kawai, Economic Advisor to ADB President Haruhiko Kuroda. Mr. Kawai will head ADB’s newly created Office of Regional Economic Integration in October.

The Finance Ministers of the 13 ASEAN + 3 countries expressed appreciation for ADB’s continued support as they announced their steps for strengthened financial cooperation in Istanbul.

“We thank ADB for its continued support for ASEAN + 3 initiatives and welcome its new focus on regional economic integration,” the ministers said in a statement after the meeting, held on the sidelines of the ADB Annual Meeting in Istanbul.

The ASEAN + 3 ministers agreed to strengthen the CMI, under which there are 16 bilateral swap arrangements totaling about $40 billion, into “a more effective and disciplined framework” by

• integrating the CMI with an enhanced economic surveillance process for the ASEAN + 3 countries;

• adopting a collective activation and decision-making process on the current network of bilateral swap arrangements within ASEAN + 3, as a first step toward multilateralization;

• increasing the size of the available swaps by up to 100% while noting exact size could be flexibly decided by bilateral negotiations; and

• doubling the size of the swaps that could be withdrawn without them coming under an International Monetary Fund program from 10% to 20%. "Joint activation is one way to reduce problems of bilateral swap arrangements," Mr. Kawai said. "The new arrangement is a first step toward multilateralism, under which all countries would pool resources."

After the 1997 Asian financial crisis, ADB has been supporting ASEAN + 3 initiatives such as the ASEAN + 3 Informal Policy Dialogue Process, CMI, the Asian Bond Markets Initiative, and the ASEAN + 3 Research Group.

President Kuroda told the ASEAN + 3 ministers meeting that ADB stands ready to work with them and their governments in whatever way it can in their regional integration efforts.

"The strengthening of the Chiang Mai Initiative and the enhancement of the ASEAN surveillance process will boost the resilience and economic growth of the region."

Masahiro Kawai, ADB Economic Advisor
The Missing Link

Credit rating agencies in emerging markets should play a developmental role, especially in the early stages of bond market development, a seminar is told.

By Srinivasa Madhur
Principal Economist

Asia’s nascent domestic credit rating industry needs to be nurtured if the region wants to develop deep and liquid bond markets.

That was the message at a seminar on The Role of Credit Rating Agencies in Asia’s Emerging Bond Markets, held in Istanbul.

The seminar, held on the second day of the Asian Development Bank (ADB)’s 38th Annual Meeting, came barely a day after the ASEAN+3 Finance Ministers announced they intend to develop a road map of policy measures for the further development of bond markets in the region under the auspices of their Asian Bond Markets Initiative.

Except in a few countries, bond markets are relatively underdeveloped in Asia. “Establishing the required financial infrastructure and creating an enabling policy environment for the development of vibrant bond markets are key challenges for these countries,” said Goh Chye Boon, Executive Director of the Market and Business Conduct Department of the Monetary Authority of Singapore, in his opening remarks at the seminar.

“Credit rating agencies play a crucial role in this, as they help bring together investors and issuers in the bond market,” he added.

“The role of credit rating agencies in bond market development is to provide objective and independent opinions of credit risk that are supported by widely disseminated analyses and other credit research through a simple symbol system,” added Michael Petit, a Managing Director from Standard & Poor’s.

Focusing on the Japanese and Korean experience, Yasuhiro Harada, President of the Rating and Investment Information, a Japanese credit rating agency, observed that alongside an institutional framework, concerted efforts are required to make issuers release correct information and facilitate an unbiased and trustworthy credit rating industry. However, he did not favor rigid regulations by the regulatory authorities for achieving this objective.

His view was echoed by Ramlah Mahmood, Director of the Market Policy Association of Former Employees of ADB

AFE-ADB Welcomes New President

Members of the Association of Former Employees (AFE-ADB) attending the AFE-ADB’s 19th Annual General Meeting in Istanbul were pleased to welcome ADB President Haruhiko Kuroda, who made time to address them during his busy schedule. The meeting was attended by about 80 former employees, including former Presidents Masao Fujioka (President, AFE-ADB); Kimimasa Tarumizu; and Tadao Chino. President Fujioka and M. Ikramullah Khan (Executive Secretary, AFE-ADB) also addressed the meeting, while reports were given by Hans Springer (Insurance Coordinator, AFE-ADB); Victor The (Treasurer, AFE-ADB); and AFE-ADB Country Coordinators.

A cocktail party held by the AFE-ADB the previous evening was attended by about 120 participants.
As the world becomes more integrated, capital markets are playing a vital role in providing liquidity and investment instruments as well as in maintaining global financial stability, Asian Development Bank (ADB) Vice-President Khempheng Pholsena told a seminar at the 38th Annual Meeting of ADB’s Board of Governors in Istanbul. "They are not only the markets where debt and equity funds are bought and sold, but also an essential source of financial innovation and opportunities," Ms. Pholsena said. She was speaking at a seminar on Capital Markets: What Does the Future Hold?, held on the opening day of the ADB Annual Meeting.

Ms. Pholsena said there is a continued abundance of global liquidity and improved credit quality in mature and emerging financial markets, including a rapid growth of assets in Asia.

"Many of these assets have found their way into global and regional capital markets, as investors seek the best prospects for returns," she said.

However, she said that potential disruptions to market performance loom in the background. These include stubbornly high oil prices and continued global growth imbalances across industrial countries, which increase the risks of a disorderly adjustment of currency and capital markets.

The seminar brought together four prominent players in the asset management industry who are collectively responsible for managing more than $1.5 trillion in stocks, bonds, and other assets. They provided their insights on what investors could expect from the capital markets in the years to come.

"The Annual Meeting offered an important opportunity to discuss the challenges facing institutional investors, and I was pleased to participate in what was a dynamic exchange of perspectives and ideas with my fellow panelists and the members," said Laurence Fink, Chair and CEO of BlackRock Inc., a New York-based asset management company.

David Fisher, Chair of the Board of Capital International Inc. and Capital Guardian Trust based in Los Angeles, said it is an attractive time for investing in emerging markets even after four years of outperformance. "Given their attractive growth rates, emerging markets will continue to represent a larger share of the global capital markets," he said.

But Jeremy Grantham, Chair and Chief Investment Officer (CIO) of Grantham Mayo Van Otterloo, a Boston-based global money manager, was more cautionary. In his presentation, Skating on Thin Ice: Surviving in a World of Overpriced Assets, Mr. Grantham looked at, among others, inflated house prices in Australia, United Kingdom, and United States (US), and the increased role that housing price increases have played in sustaining the expansion of credit and consumption.

On the other hand, Bill Miller, Chair and CIO of Legg Mason Capital Management, a US equity manager based in Baltimore, Maryland, said, "I have never seen such angst amid such opportunity as we see it right now." Mr. Miller talked about US investment in a global economic context. He said that this year’s decline in US stock prices was closely correlated with the resumption of the rise in the price of the world’s largest and most important commodity—oil.

William Pesek, Jr., Asia-Pacific columnist of Bloomberg News, moderated the seminar.

"Emerging markets will continue to represent a larger share of the global capital markets,"

David Fisher, Chair of the Board of Capital International Inc. and Capital Guardian Trust
Glimp
The Government and people of Turkey proved gracious hosts of ADB’s 38th Annual Meeting, both in and out of the Conference Center.
MEETING POINT The Golden Horn glimmers at sunset, as seen from the Galata Bridge, which not only provides a crossing for cars, trains, and pedestrians, but also a colorful array of shops and restaurants.

Front cover photo by Richie Abrina