

CRS Report for Congress

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The Asian Development Bank

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Summary

The Asian Development Bank (ADB) is a multilateral development finance institution based in Manila, Philippines. Founded in 1966, the ADB has 44 Asian members, as well as 17 non-Asian members. The ADB makes both market rate and concessional loans, mostly to its 40 so-called developing member countries (DMCs). In the late 1990s, the Bank proclaimed poverty reduction as the key focus of the ADB, reflecting a significant shift in ADB lending from an early preference towards economic infrastructure projects.

The United States is a founding member of the ADB and Congress periodically authorizes and appropriates funds for both the ADB and Asian Development Fund (ADF) through the annual Foreign Operations appropriations bill. Though some U.S. observers believe that the ADB is becoming redundant, mirroring the World Bank's lending activities, others believe that the ADB is a necessary regional institution that advances U.S. interests. The Bush Administration has pressed for active U.S. involvement in the ADB as well as the other multilateral development banks (MDBs).¹ This report will be updated as events require.

Background

The Asian Development Bank (ADB), founded in 1966 with headquarters in Manila, Philippines, is a multilateral development finance institution that extends loans, makes equity investments, and provides technical assistance to its developing member countries (DMCs). Of the ADB's 61 members, 44 are located in Asia. Of the 44 Asian countries, 40 are developing member countries.

In 2002, the ADB lent \$5.68 billion, an increase of 6.3% from 2001's lending of \$5.3 billion. India, with \$1.18 billion, or 20.9% of the total, was the largest borrower among

¹ For information on U.S. participation in the multilateral development banks (MDBs), see: CRS Report RS20791, *Multilateral Development Banks: Procedures for U.S. Participation*; CRS Report RS20793, *Multilateral Development Banks: Basic Background*; and, CRS Report RS20792, *Multilateral Development Banks: U.S. Contributions FY1990-2002*.

21 countries in 2002. Pakistan was next with US\$1.14 billion, or 20.1%, followed by the People's Republic of China (\$868 million, or 15.3%), Indonesia (\$767 million, or 13.5%), and Vietnam (\$315 million or 5.6%).

The ADB is owned by its member countries through the purchase of shares. The United States and Japan are the two largest shareholders of the Bank, each owning 15.9% of ADB shares. Regional Asian member countries own 45.8% of Bank shares, and Asian donor countries own 19.7%. Non-regional member donors own 34.5%. Consequently, both the regional and Asian donor countries own a majority of the ADB. In addition to Japan, other prominent regional members are China, India, Australia, Indonesia, and Korea, each owning between 5% and 6% of ADB shares. Share ownership accounts for 80% of a country's voting power at the ADB. The remaining 20% of votes is distributed equally among all members. **Table 1** shows the five largest ADB members, in terms of both the ownership and voting weights.

Table 1. Largest ADB Contributors

	% of Shares	% of Voting
United States	15.84%	13.00%
Japan	15.84%	13.00%
China	6.54%	6.00%
India	6.42%	5.47%
Australia	5.87%	5.03%

Source: U.S. Treasury

Finally, the Asian Development Fund (ADF), the ADB's concessional facility was created in 1972 to provide loans to Asia's poorest countries. When the ADB was created, China was not a member, and India, a founding country, decided not to become a borrowing member of the ADB. India and China are therefore both ineligible for ADF loans. Of the \$5.7 billion lent by the ADB in 2000, \$1.6 billion or 28% was lent through the ADF. The ADF is funded through periodic replenishments. There have been seven replenishments since the ADF was created in 1972. While Japan is the largest contributor to the ADF, largest total donor to the Bank, and traditionally appoints the ADB's president, it was agreed in 1972 that voting weights for ADF loans would be the same as loans from the ADB ordinary capital. This has allowed the United States to maintain its equal voting weight at the ADB with Japan even though the U.S. contributes less than Japan and is currently in arrears to the ADF.

Resources

Like other development banks, the ADB relies on two types of resources: paid-in capital and callable capital. Paid-in capital represents funds held by the Bank and transferred to it by its member countries who buy shares in the Bank (for votes). Callable capital represents promises of funds available to the ADB by its member countries. Callable capital cannot be used to make loans; it is subject to call only to meet the ADB's obligations of borrowings of funds for inclusion in its ordinary capital resources (OCRs) or guarantees chargeable to the OCRs. No call has ever been made on the ADB's callable resources. The ADB has increased its capital base (a "general capital increase," or GCI) four times since 1966 and as of December 2001, paid-in capital amounted to \$3.1 billion and total callable capital of \$40.6 billion. Since the U.S. completed its contributions to

the ADB capital increase in FY2000, no appropriations for the ADB have been proposed or enacted.

In FY2000, the United States, under the ADB's latest general capital increase, GCI-IV completed its commitment with a payment of \$13.7 million. Total U.S. contributions under GCI-IV totaled \$66.6 million of paid-in capital and \$3.264 billion of callable capital (P.L. 104-107). Total U.S. paid-in appropriations for FY 1966-2001 are 437.6 million and total callable authorizations for the same time period are \$6 billion.

The ADB has easy access to the private capital markets with bond issuances in 17 global currencies. In 2001, 22 transactions ranging from \$7.5 million to \$250 million were placed. Borrowings outstanding as of year-end 2001 were \$24.8 billion. Proceeds from the issue will be included in the ordinary capital resources of the ADB and used in its non-concessional lending operations.

The total of all ADF contributions is \$17 billion. Of this, Japan has provided approximately \$6.5 billion and the United States \$2.9 billion. U.S. arrears - contributions pledged to the ADF in the past but not yet paid - total \$128.2 million.

In 2000, ADF VIII, a four year replenishment of \$5.6 billion to cover fiscal years 2001-2004, was agreed on by 25 contributing countries. Contributing countries specified 24 countries as eligible for funding under ADF VIII. The U.S. share is \$412 million. The Bush Administration sought an appropriation of \$103 million in FY2002 to cover the first of four annual payments. In FY2002, Congress appropriated \$98 million, but did not authorize ADF VIII. The \$98 million was thus applied solely to ADF VII U.S. arrears. \$103 million was requested for FY2003, as well as \$44.4 million to pay one-third of outstanding arrears. For FY2003, Congress appropriated \$100.4 million to the ADF (P.L. 108-7). For FY2004, Congress appropriated \$144.4 million to the ADF (P.L. 108-199), out of a request of 151.9 million, and authorized U.S. participation in ADF VIII. \$103 million will be applied to the annual ADF VIII contribution, with the remainder going towards arrears. For FY2005, the President is seeking a total of \$112.2 million, \$103 million for the final U.S. scheduled contribution under ADF-VIII and \$9.2 to clear a portion of U.S. arrears.

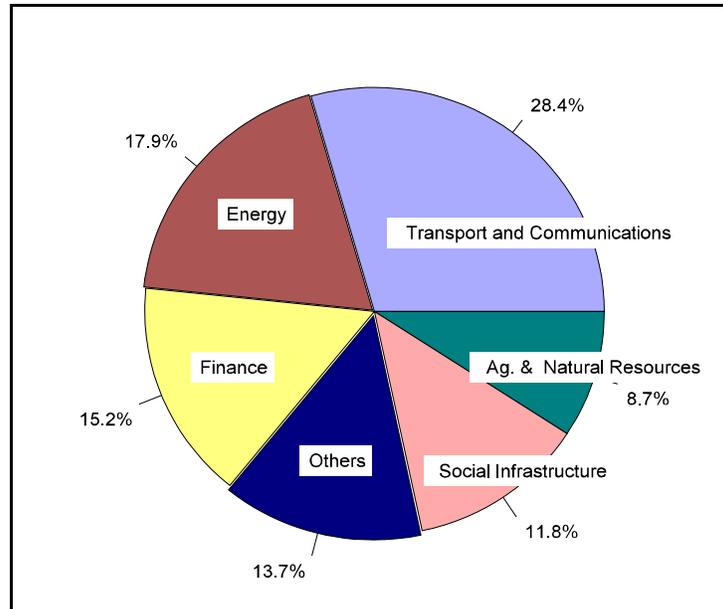
ADB Lending

The ADB provides assistance for numerous projects ranging from economic infrastructure to social programs. The types of projects that the ADB funds have changed over time. In its early years, from 1966 to 1971, 77% of funds were lent for economic infrastructure programs while only .5 % went for social programs. Since then, the share going to economic infrastructure has declined, while funding for social programs has grown. As of 2000, the ADB lent 43% of its resources to physical infrastructure projects, while devoting 24% to social projects. The ADB plans to increase its emphasis in the latter area in future years. In 1999 the ADB declared poverty reduction in Asia its core mission, institutionalizing the shift in ADB priorities. The shift in focus was, to an extent, a response to the international financial crises of the late 1990s that affected many ADB member countries including South Korea, Thailand, Malaysia, and Indonesia.

Figure 1 shows loans by sector for 2002. Total ADB loans for 2002 were \$5.68 billion. Loans from the ADB's ordinary capital were \$3.9 billion, with \$1.6 billion lent

from the ADF. In addition to loans, the ADB approves equity investments, provides guarantees as credit enhancements, political risk guarantees, partial credit guarantees, and technical assistance.

Figure 1. ADB and ADF Lending By Sector, 2002



Source: ADB

According to the ADB, their projects and programs emphasize one or more of six priorities: economic growth, human development, improving the status of women, protecting the environment, strategic development objectives, and poverty reduction. Poverty reduction has been the overarching priority of the ADB since November 1999. The ADB's 15-year Long-Term Strategic Framework defines three core areas of activity to reduce poverty in Asia: sustainable economic growth, inclusive social development, and good governance policies.² A poverty reduction unit has been set up and poverty studies have been completed for many developing member countries. In 2002, 38 projects and programs were especially targeted to reducing poverty, amounting to \$2.33 billion, or 42% of total ADB public sector lending. Regarding social development, ADB activities include lending for public health issues such as combating infectious diseases within its member countries, as well as support for good governance policies. The ADB creates country plans to address public administration reform, corporate governance, corruption, and increased transparency and accountability.

As the first stage in its long-term poverty reduction strategy, the ADB has implemented a five year medium term strategy to cover 2001-2005. It highlights numerous challenges to be addressed in the first stage of the long-term strategy. First is the need for robust and sustainable economic growth. Increases in GDP must be accompanied by substantial long-term foreign direct investment in domestic economic and social infrastructure. This economic growth must be "broad-based and pro-poor."

² Asian Development Bank, The Long-Term Strategic Framework of the Asian Development Bank, ADB Policy Paper, February 2001.

It will involve the creation of social safety-nets, and a social policy to ensure that all members of society, both men and women, benefit from economic growth. Other challenges include creating effective institutions, increasing the role of the private sector, reversing environmental degradation, and improving regional cooperation.³

Issues for Congress

As Congress considers authorization and appropriations for the ADF, as well as a possible capital increase in the ADB's ordinary capital resources, the following issues may be discussed in the debate: the ADB's role in fighting terrorism, the scope and effectiveness of its lending, its relationship with the World Bank, and the size of the institution. Given the importance of both the region and the MDBs to the Bush Administration's international economic policy, it appears likely that the ADB will be of consistent congressional concern throughout the 108th Congress.

Prominent among the congressional concerns is the role of the ADB in fighting terrorism and terrorist financing throughout Asia. Through its lending and assistance programs, the ADB could feasibly be used by the Bush Administration to "reward" certain countries for cooperating with U.S. anti-terror efforts. Regarding Afghanistan, for example, the Bank approved a \$150 million multi-sector program to support policy reform, public infrastructure investment and capacity building. In addition, the ADB hopes to provide \$50 million in 2003 to support an agriculture sector program to develop policy and institutional reforms. While the ADB had not lent to Afghanistan since 1979, at the Tokyo Conference in January 2002, it committed itself to providing \$500 million in FY2002-2004 for programs in Afghanistan.

Assistance to Pakistan, another country greatly affected by the events of September 11, 2001, increased in 2001 to approximately \$1 billion. Recent assistance has supported numerous reforms such as justice reform, expanding access to elementary education, and governance reforms in addition to traditional ADB infrastructure projects including road and sanitation projects. The ADB is also playing a part in efforts combating terrorist financing. Along with the other MDBs, the ADB is bound by international law and agreements to comply with U.N. Security Council resolutions in order to prevent ADB funds from inadvertently supporting terrorist activities. North Korea, which has been in a nuclear standoff with the United States since October 2002, is actively seeking membership to the ADB and access to ADF assistance; this could be used as a possible diplomatic channel.

Many issues regarding the ADB's shift towards poverty reduction remain unresolved. First, with the ADB declaring poverty relief its overarching goal, the World Bank and the ADB are now, to some extent, competing rather than complementary institutions. There are also concerns that the ADB might not have the skills and competence to fully succeed in its new mandate of poverty alleviation. Some have noted that the ADB's staff in the areas of governance and social development need improvement.⁴ An area of possible congressional concern is that the ADB's new

³ See Asian Development Bank, Medium-Term Strategy (2001-2005), September, 2001.

⁴ Department for International Development, "The UK's International Development Partnership (continued...)"

emphasis on social programs similar to the World Bank could threaten its traditional core competencies of infrastructure and real sector projects. Donor countries will complete a mid-term review of ADF VIII in the fall of 2003, and begin discussion on ADF IX, the next replenishment.

Moreover, the role of the ADF in the ADB's new strategy is not yet clear. Since poverty-reduction assistance is taking a larger share of the ADB agenda, the ADF could likely play a more prominent role within the ADB in the future. While U.S. arrears to the ADF do not affect voting weights for ADF loans, they could affect the ability of the U.S. to influence and help shape the agenda of the ADB overall. According to some observers close to the ADB, this has already occurred. For example, the Bush Administration successfully sought agreement for the World Bank to shift some of its concessional lending, up to 20% of the total, from loans to grants benefitting the poorest member countries.⁵ The Bush Administration would reportedly like to see a similar grants program in the ADF. Yet the continuance of U.S. arrears could hinder the Bush Administration's efforts to convince other ADB member countries to push forward with this strategy.

Some commentators are concerned about the value and effectiveness of Bank lending overall. In a recent article, Allan Meltzer and Bruce Rich point to an internal ADB audit that indicates that less than one-third of ADB loans to Indonesia, its largest borrower, are likely to have long-lasting beneficial social and economic effects.⁶ Other analysts stress the numerous accomplishments of the ADB. Regarding Indonesia, which Messrs. Meltzer and Rich criticize, others stress the improvements that long-term ADB assistance have been able to make in private-sector growth, human and social development and sustainable environmental management.⁷ James Orr, executive director of the Bretton Woods Committee, also question whether 100% program completion is the appropriate measure of success for development assistance. He mentions that 90% of ADB projects in Indonesia evaluated over the past four decades have provided socioeconomic benefits to the Indonesian population.

Finally, analysts note the ADB's relatively small size compared to other regional development banks such as the Inter-American Development Bank. In 2001 the ADB had total assets of \$44.9 billion to serve its 61 member countries, 40 of which are borrowers. In contrast, the Inter-American Development Bank has ordinary capital resources totaling \$101 billion to serve its 46 members, 26 of which are borrowing countries in the region. The size and economic needs of the region at the time of the ADB's creation did not necessitate a large institution. Considering the current needs of the region, there is some discussion regarding a new general capital increase for the ADB's ordinary resources.

⁴ (...continued)

with the Asian Development Bank: Institutional Strategy Paper" May 2000.

⁵ For more on the loans/grants proposals, see: CRS Report RL31136, *World Bank: IDA Loans or Grants*, February 8, 2002.

⁶ Allan Meltzer and Bruce Rich, *World Bank Drain*, Washington Times, A15, January 13, 2002.

⁷ James Orr, *Give the World Bank a Break*, Washington Times, January 17, 2002.