ADB

Evaluation Study

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Real-time Evaluation of Asian Development Bank's Response to the Global Economic Crisis of 2008–2009

Independent Evaluation Department

Asian Development Bank

ABBREVIATIONS

ACAP	anti-crisis action plan
ACP	anti-crisis plan
ADB	Asian Development Bank
ADF	Asian Development Fund
ASEAN	Association of Southeast Asian Nations
CSF	Countercyclical Support Facility
DMC	developing member country
DPSP	Development Policy Support Program
EGP	employment generation program
GDP	gross domestic product
IMF	International Monetary Fund
Lao PDR	Lao People's Democratic Republic
OCR	ordinary capital resources
OREI	Office of Regional Economic Integration
PESF	Public Expenditure Support Facility
PRC	People's Republic of China
SMEs	small and medium-sized enterprises
TFP	Trade Finance Program

NOTE

In this report, "$" refers to US dollars.

Key Words

adb, asian development bank, countercyclical support facility, financial crisis, global economic crisis, real-time evaluation, trade finance program

Officer In Charge	H. Hettige, Independent Evaluation Department (IED)
Team leader	V.B. Tulasidhar, Advisor, Office of the Director General (IEOD)
Team members	H. Feig, Lead Evaluation Specialist (Financial Sector Operations), Independent Evaluation Division 1, IED C. Kim, Principal Evaluation Specialist, IED2 J. Balbosa, Senior Evaluation Specialist, IED2 G. Crooks, Senior Evaluation Specialist, IED2 B. Nguyen, Senior Evaluation Specialist, IED2 J. Tubadeza, Evaluation Specialist (Operations Coordination), IEOD L. Calderon, Administrative Assistant, IEOD
	Independent Evaluation Department, SS-111

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The guidelines formally adopted by the Independent Evaluation Department (IED) on avoiding conflict of interest in its independent evaluations were observed in the preparation of this report. Vishvanath V. Desai, Bahodir Ganiev, Anwar Nasution, Mohammad Taslim, Vo Tri Thanh, Rodolfo Vicerra, Liz Biglang-awa, and Jennifer Simon-Albers were the consultants. To the knowledge of the management of IED, there were no conflicts of interest of the persons preparing, reviewing, or approving this report. H. Satish Rao, former Director General, IED, and Ramesh Adhikari, former Director, IED1 also guided the evaluation team.

EXECUTIVE SUMMARY

Objective and Scope

The objective of this evaluation is to provide real-time feedback to the Management and the Board of Directors of the Asian Development Bank (ADB) on (i) the relevance of its assistance during the global economic crisis (in terms of rationale, consistency, and design), (ii) responsiveness in terms of how ADB formulated and delivered the support, and (iii) results (achievement of outputs and initial outcomes) and their sustainability.

The evaluation covered ADB's crisis-related assistance (loans and grants) provided in 2009 and 2010 from the Asian Development Fund (ADF), ordinary capital resources (OCR), and other ADB special funds, with specific focus on ADB's Countercyclical Support Facility (CSF) and Trade Finance Program (TFP). The evaluation selected all five countries that received CSF support—Bangladesh, Indonesia, Kazakhstan, Philippines, and Viet Nam—plus Tajikistan for country case studies.

Impact of the Crisis on Asia

The escalating financial crisis in the United States (US) since early 2007 had little direct impact on ADB's developing member countries (DMCs) until the demand for DMC exports started to decline in the second half of 2008. External credit and capital flows began to flee the DMC economies after US financial markets imploded in September 2008. The global economic crisis was thus transmitted to DMC economies through three channels—trade, capital flows, and remittances—and cut their growth.

Developing Asia grew at 5.9% in 2009, higher than any other region in the world, but it was the slowest rate of growth in 8 years. The most serious cause was the sharp fall in trade with the advanced economies, which led to substantial cutbacks in production and investment. Markets for expatriate workers suffered, with adverse impacts on remittances to home countries. Of 35 DMCs, 20 were severely affected by the crisis. Many of these countries are from the Pacific and Central Asia.

Generally, DMCs with deeper integration in the global economic system through exports of goods and/or labor services suffered more—their export earnings, and in some cases remittances, collapsed, leading to a fall in gross domestic product (GDP) growth and a rise in unemployment and poverty. Sudden and deep cuts in net private capital also seriously affected several DMCs, and the drop in commodity prices hurt both export performance and the fiscal balances of commodity exporters—Kazakhstan, Kyrgyz Republic, Lao People's Democratic Republic, Mongolia, Tajikistan, and Uzbekistan.

Government Response

After their meetings in November 2008 and March 2009, the Group of Twenty (G20) leadership issued clear policy advice to countries around the world to adopt fiscal expansion to stimulate aggregate demand. Consensus on launching coordinated fiscal expansion helped DMCs to initiate the necessary actions without delay. Policy missteps encountered in the Asian crisis of 1997 were not repeated. Asian governments' response was decisive, timely, and in some ways unprecedented. Fiscal stimulus was synchronized with monetary policy. And multiple countries acted simultaneously. Many Asian governments had fiscal space to put in place sizable stimulus packages. Countries also undertook measures to reduce the vulnerability of their finance sectors.

ADB's Preparedness

ADB was much better prepared institutionally to respond to the crisis than it had been in the 1997 Asian financial crisis. In 1999, ADB set up the Regional Economic Monitoring Unit, and in April 2005, upgraded it to the Office of Regional Economic Integration (OREI). Besides enhancing its own surveillance in East and Southeast Asia, ADB boosted the surveillance capacity of DMCs, particularly those within the Association of Southeast Asian Nations (ASEAN).

Knowledge departments in ADB collaborated in carrying out crisis-related knowledge work. Two important publications of ADB—*Asian Development Outlook* and its *Updates*, and *Asia Economic Monitor*—provided valuable clues on the likely impact of the global economic crisis on the region in general, and on some of the countries. ADB also produced a greater number of working papers and other knowledge products on various facets of the crisis, its impact on Asia, and policies to combat it. Knowledge departments periodically briefed ADB's Management and Board; and political, administrative, and business leaders (particularly within ASEAN+3). ADB's operations departments were also better prepared than in 1997 to provide operational and knowledge support to DMCs due to greater focus on policy-based operations in areas like public resource management, finance sector, and governance reforms. However, stronger coordination among operations departments, and between the operations departments and the knowledge departments, could have created even better synergies in the use of staff resources, economies of scale in knowledge production, and cross-regional fertilization of experiences and ideas, and could have more effectively contributed to the design, processing, and implementation of the assistance.

ADB Management's planning of its response to the crisis was swift, but implementation was delayed by the constraint on financial resources. In October 2008, ADB developed an assessment of macroeconomic soundness and vulnerability of individual DMCs to the global financial crisis. Soon after, it prepared "Plan B: ADB Crisis Management Measures" to create interdepartmental arrangements, strengthen economic and financial surveillance and monitoring, and intervene to revive financial markets to support key sectors of the national economies. By January 2009, ADB had prepared a proposal to respond to the global economic crisis.

However, action was constrained by the lack of borrowing and lending scope at the time of the crisis. In December 2008, ADB reviewed and modified its lending and borrowing limitation policies, which added some temporary latitude but still not enough to mount a serious crisis-response operation. An increase in the size of ADB's capital was imminent. Under the circumstances, ADB provided crisis assistance only after its shareholders approved the capital increase in May 2009. Thus, ADB's crisis assistance became available mostly in the second half of 2009, by which time nascent recovery was already evident in some DMCs.

ADB's Crisis Support

Besides using its regular loan and technical assistance products for crisis-response purposes, ADB created the CSF and enhanced the size of its TFP. ADB established the $3 billion CSF in June 2009 as a time-bound budget support instrument to provide more effective countercyclical aid to its borrowers. The CSF was intended for DMCs that are eligible for OCR borrowing, including blend countries, which are also eligible for ADF financing. The facility had a 5-year tenor with a 3-year grace period; it carried an interest rate of 200 basis points above the London interbank offered rate and a commitment fee of 0.75%. Access to the CSF was based on three criteria: (i) the adverse impact of the global economic crisis, (ii) planned countercyclical development expenditures for poverty reduction, and (iii) sound macroeconomic management. In 2009, ADB approved $2.5 billion in CSF assistance to five countries (Bangladesh, Indonesia, Kazakhstan, Philippines, and Viet Nam) and disbursed $2 billion. The remainder was disbursed in early 2010. ADB approved an additional $400 million ADF commitment authority to help the most fiscally stretched ADF-only countries. To support ADF-eligible borrowers' stimulus and social protection packages, ADB allowed front-loading of up to 100% of their biennial (2009–2010) ADF allocation. In March 2009, ADB expanded the TFP by raising the exposure limit from $150 million to $1 billion to improve access to trade finance for DMCs. ADB quickly carried out due diligence assessment of financial strength, and fiduciary and governance standards in commercial banks in DMCs and selected 85 of them as issuing banks under the TFP.

Overall ADB assistance to sovereign and nonsovereign borrowers (excluding the TFP) grew by 28%, from $11.6 billion in 2008 to $14.8 billion in 2009. In addition, ADB's trade finance assistance reached $633 million in 2009 and $1.2 billion in 2010. Assistance to sovereign borrowers jumped by 46%, from $9.5 billion in 2008 to $13.9 billion in 2009, as several governments launched countercyclical fiscal expansion. In 2009, ADB was able also to mobilize about three times more cofinancing to reach $3.1 billion. However, assistance to nonsovereign clients (excluding the TFP) substantially declined—from $2.1 billion in 2008 to $0.9 billion in 2009—when investor confidence collapsed worldwide in 2008–2009. It more than doubled in 2010 to over $2.1 billion—close to precrisis levels—as business confidence revived.

Total disbursements reached $10.64 billion in 2009 compared with $8.95 billion in 2008, and the overall disbursement ratio for sovereign and nonsovereign operations increased to 30.7% in 2009 against its historical average of about 25%. A significantly higher level of disbursement during the crisis was made possible by ADB's decision to deliver a far higher proportion (44.7%) of assistance through its program loan modality in 2009 than its average of about 30%. Nearly 70% of program assistance approved in 2009 was disbursed in the same year. Net resource transfer to DMCs increased by 42% in 2009 to reach $6.5 billion.

In general, the "least affected" (with less than 20% decline in GDP growth rate) DMCs received a greater share of ADB's overall assistance than the "severely affected" (with more than 50% decline in GDP growth rate). Compared with the average assistance received in 2007 and 2008, the severely affected countries received 40% more assistance in 2009 and 11% more in 2010, whereas the least affected countries received 75% more assistance in 2009 and 36% more in 2010. Similar imbalance occurred in disbursements and net resource transfers.

Assessment of ADB's Response

Relevance. Overall, ADB's support to the crisis is assessed as *relevant*. The operational preparedness of ADB in assessing potential risks to Asia and the Pacific, and to individual countries, and in strategically positioning its crisis-response instruments was highly appropriate. The rationale for introduction of the CSF and TFP is grounded in sound reasoning—to support fiscal stimulus packages and DMC trade. Thus, as instruments, the CSF and TFP are pertinent and useful for crisis support. The CSF was *relevant*. The absence of conditionality, fast-track processing, and quick disbursing make the CSF particularly attractive. ADB's dialogue with many DMCs on public financial management enabled better integration of crisis support in their medium-term fiscal frameworks. ADB also made innovative use of existing program lending instruments, as in the case of a contingent loan facility for Indonesia jointly with other funding agencies. Refinement of access criteria to strengthen vulnerability assessment, and taking note of projected net resource transfers from all agencies, could have further enhanced the relevance of ADB assistance, particularly to severely affected countries. ADB had coordinated its assistance closely with other aid agencies in all the countries visited by evaluation missions; the coordination was particularly notable in Indonesia, Kazakhstan, Tajikistan, and Viet Nam.

The TFP is *highly relevant*, because trade was the route by which the crisis was transmitted to many DMCs, and because the program has a special focus on regional trade and on enhancing access for small and medium-sized enterprises.

Provision of timely analytical support is assessed as *highly relevant.* Both knowledge and operations departments contributed to this process. Many DMCs appreciated the support provided. Substantial enhancement of surveillance in East and Southeast Asia, and greater operational focus on policy-based lending, seem to have helped ADB to respond to this crisis swiftly.

Responsiveness. Overall, ADB was *responsive* to the crisis. ADB formulated its response efficiently by substantially enhancing its TFP, quickly introducing a new product (CSF), and enhancing the volume of its regular lending. ADB also targeted a significant part of crisis-related assistance to DMCs that were severely affected by the crisis—Armenia, Cook Islands, Georgia, Mongolia, Pakistan, Philippines, Solomon Islands, and Tonga. Nonetheless, overall assistance to the most severely affected DMCs grew more slowly than that provided to moderately and least-affected countries, in part due to the absence of a crisis support window to ADF countries. More importantly, in 2009, net resource transfer from ADB was negative or zero to nine countries, of which eight were severely affected, small island countries in the Pacific and six had negative GDP growth in that year. Despite readiness and fairly detailed assessments of the likely impact of the crisis on DMCs and how they should be assisted, and clear indications of support for an increase of the capital base, ADB did not seem to have taken advance action to provide crisis-related assistance in the early part of 2009.

ADB’s CSF assistance responded well in four of the six case study countries. In Bangladesh, the response was lower due to the inflexibility and high cost of the CSF, and in Indonesia due to the late response. Quick approval and disbursement of crisis assistance is important. In some DMCs, external assistance from multilateral development banks and bilateral agencies was needed not merely for budgetary support but for two equally critical reasons: (i) to send a strong signal of confidence in the country’s economic fundamentals and management to help dampen erosion of confidence among other creditors and investors, as well as domestic asset holders; and (ii) to enhance the country’s readiness to fight the fiscal uncertainties of the crisis.

ADB's performance regarding implementation efficiency of the assistance was mixed. Indonesia would have benefited from more timely approval of the contingent loan, and approval and disbursement of CSF assistance. The contingent loan, which is akin to an emergency operation, had to be processed using the regular program lending modality in the absence of a suitable fast-track instrument. Disbursement of the CSF in 2009 would have avoided negative net resource transfer from ADB to Indonesia. Likewise, Bangladesh would have benefited if the CSF had offered flexibility in loan disbursements, and longer tenor.

DMCs conveyed to the evaluation missions their appreciation of ADB's response to the crisis and the form in which support was provided. They also appreciated ADB’s analytical and policy support. Also cited was the proactive role played by the resident missions in Bangladesh and Tajikistan.

The TFP is considered *highly responsive* in all 10 DMCs that accessed the program. It was concentrated in countries that were in considerable need of trade finance and had focused on small and medium-sized enterprises and regional trade. The program was implemented efficiently, as was evident from the awards it got from the trade journals. However, many governments were not aware of the TFP. Collaboration with trade-promoting agencies in these countries could have ensured awareness of the program.

Results. It is difficult to assess the contribution of ADB's crisis response to Asia's remarkable and early recovery from the crisis, given the relatively small size of its operations in relation to fiscal stimulus packages. Still, ADB played an important role by helping promote Asia's coordinated fiscal response through its policy dialogue and by taking part in the stimulus packages of several countries that used its lending and nonlending products. ADB's crisis-related assistance was successful in achieving its objectives in most of the DMCs that received this support.

In Bangladesh, the government substantially delivered the social safety net program that was included under the CSF. However, from a sustainability point of view, the short tenor of an instrument like the CSF may cause difficulties for Bangladesh, which has to pay back the loan in hefty installments within 2 years. In Tajikistan, the envisaged outputs of the assistance program were only partly achieved, and there were shortfalls in reaching the performance targets set for the provision of social assistance to vulnerable groups, and for utility, food, and medicine expenditures in the social sectors. The poverty impact of the program was uncertain.

In Indonesia, the announcement in February 2009 of a $5 billion contingent loan (jointly with other aid agencies) did seem to help restore market confidence and contribute to economic recovery. Tax cuts constituting 79% of the fiscal stimulus package were implemented as planned. However, the CSF assistance was disbursed at a time when the government was unwinding its fiscal stimulus package. A large part of the expenditures purportedly financed by the CSF were included in the 2009 budget.

The TFP has been successful in meeting its objectives in all major recipient countries—Bangladesh, Nepal, Pakistan, Sri Lanka, and Viet Nam—which accounted for 90% of its operations in 2010. In these countries, where trade credit was particularly constrained, the TFP has enhanced access.

Overall Assessment

Overall, the evaluation finds ADB's assistance to be *relevant, responsive, and satisfactory* in achieving program objectives and initial results. There is, however, scope for enhancing the responsiveness of the CSF and ADB's preparedness for timely delivery of assistance. While ADB mobilized effectively all the resources under its control to respond to the crisis, it was slowed by inadequate financial resources. It should avoid this situation in the future.

Issues

Ideally, ADB needs to be prepared both institutionally and financially to respond to a crisis. Its ability to respond financially depends on two important factors: (i) its risk-bearing capacity, defined by capital scope; and (ii) the credit quality of its portfolio, which a crisis could affect in unexpected ways. As ADB's exposure to nonsovereign operations increases, so too does the vulnerability of its portfolio. Its ability to respond to a crisis could also be influenced by the reflow of resources from its past lending. There are three broad ways in which ADB can remain prepared for a crisis: First, create a layer of buffer capital as a reserve that is adequate to support increased lending necessary during a crisis—although this could adversely affect ADB's development effectiveness. Second, carry on with a sustainable level of operations and, when a crisis arises, reduce the level of future operations adequately in order to accommodate the necessary increase in crisis lending. These two options entail a trade-off between crisis response and regular operations. A third option would be for ADB to augment its risk-bearing capacity to mount a crisis response with shareholders' assistance when a crisis is imminent. To stay prepared, ADB could review its options regarding the feasible extent of a crisis response, financing modalities, and terms of such a response, and the implications for normal lending activity, as part of its medium-term planning.

Lessons

Findings of this evaluation raised the following lessons for the future.

Institutional readiness and greater flexibility are important in responding to crises. Timeliness is critical to crisis response; usually, the earlier the response, the more effective it is. ADB had no latitude to mobilize additional funds in late 2008, and was unable to provide much assistance until the second half of 2009, by which time the crisis began to abate and recovery had begun in some DMCs. These delays diminished the value of ADB assistance to some extent. Institutional readiness to assist in future crises should place emphasis on (i) the need to have capital headroom for contingencies, and (ii) the timeliness of assistance. There will be a trade-off between ADB's crisis response operations and its normal operations unless ADB augments its risk-bearing capacity to mount a crisis response when a crisis is imminent. To stay prepared, ADB could evaluate the options for possible crisis response size, financing modalities and terms of such response, and their implication for normal lending operations as part of its medium-term planning (paras. 20–25, 145).

Surveillance of more countries and regions would further enhance ADB's crisis response ability. ADB was better prepared institutionally to respond to this crisis than to the Asian crisis in 1997, in part thanks to OREI's assistance to surveillance in East and Southeast Asia. ADB could further strengthen the depth and frequency of its macroeconomic analysis of countries, and widen its surveillance capacity development and monitoring activities to regions outside East and Southeast Asia. A solid understanding of the macroeconomic situation in DMCs, and continuous monitoring of macroeconomic and finance sector developments, will enable ADB to assess the vulnerability of individual DMCs to future crises and to equip itself to respond more effectively (chapter IV, section C).

A crisis response facility for ADF-only countries would have been useful. While ADB successfully mobilized significant additional resources to help DMCs, the benefits of its response were unevenly distributed, to the disadvantage of severely affected countries. As a group, the countries most affected by the crisis received a lower share of additional ADB assistance than moderately and least-affected countries. This happened in part because a concessional crisis-response window that would exclusively help smaller and poorer countries was absent. ADB did try to boost its assistance to severely affected countries, but the rigidity of ADF allocation and the difficulties in the use of regular program and project loans for such countries constrained it (paras. 43–45, 131).

What is more important in a crisis situation is making more resources available. For this, the focus of ADB should be on increasing disbursements. During crisis situations, ADB also needs to assess net resource transfers to DMCs from all official sources of development assistance. The evaluation found that a number of smaller DMCs, although most affected by the crisis, received negative net transfers from ADB during 2009—thereby inadvertently making ADB operations procyclical. This would not have occurred if the eligibility criteria that ADB used to allocate crisis-response resources to DMCs had taken into account the projected net resource transfer position from all funding sources, particularly for the most vulnerable countries (paras. 46–48).

Better internal coordination and collaboration at ADB among departments would have made the assistance more efficient. ADB's response to the crisis would have been even more efficient and used resources more effectively if there had been an arrangement (for example a committee of directors general) with one nodal lead to coordinate crisis-related responses of operations departments and knowledge departments. There was close interdepartmental coordination for preparing Plan B, which was ready in December 2008. However, asymmetry seen in the operational burden of this crisis on some departments and staff with requisite expertise could have been moderated through better coordination among operations departments. A coordinated and collaborative approach could have allowed cross-departmental use of experienced and highly skilled staff, which could have further improved the quality of products and possibly reduced processing time, which was already compressed (paras. 20, 40–41, 63).

The CSF could be designated as a standby facility offering greater flexibility in disbursements. Blend countries would benefit from longer tenor where needed. The evaluation found the CSF to be a useful instrument for crisis response. However, it would be more effective if it offered more flexibility in loan size and tenor to fit the diverse needs of different countries. As found in the case of Bangladesh, which is not a middle income country, greater flexibility in withdrawing funds from the loan in the amounts and at the time needed by the government would have made the instrument more effective. Greater flexibility in disbursements, similar to the deferred drawdown facility offered by the World Bank, would have enhanced the CSF's responsiveness. Also, a fixed 5-year tenor for all countries makes the instrument less suitable for some poorer countries eligible for a blend of ADB's OCR and ADF assistance—some could find it impractical, if not disruptive, to repay the loan in just 2 years in large biannual installments. A longer tenor (up to 8 years based on assessed need) would enhance the concessionality of the facility to the blend countries, which are unlikely to get access to the ADF crisis-response window (paras. 69–70, 110–112).

Precautionary financing instrument as a facility variant. A precautionary financing instrument (similar to the contingent loan provided to Indonesia) would be a useful tool to respond to future crises, particularly to help middle-income countries. To be effective, the facility would have to be provided rapidly and jointly by all participating agencies, since the intent of such an intervention is to give a strong signal to the markets. The contingent loan provided to Indonesia is akin to ADB's regular program loan in its tenor and processing approach. ADB should assess the implication of providing such a long tenor for crisis support loans on its headroom. If the CSF is designed as a flexible instrument, the precautionary finance instrument could become a special case of the CSF. This would also allow fast-track processing of precautionary finance loans—a great advantage at a time of crisis (paras. 74, 76, 110–111).

More rigorous assessment of vulnerability and coping abilities, and paying attention to net resource transfers, would have improved targeting. A further refinement of selection criteria—to include assessment of (i) the vulnerability of DMCs via composite indexes based on information reflecting the fundamental strength of the policy regime and structural aspects of the economy, (ii) the ability of social protection systems to cope with a crisis, and (iii) net resource transfers from all official sources of development assistance—could ensure the flow of resources to countries that are more affected and in greater need. The criteria also need to include (i) triggers for CSF assistance, and (ii) principles for assessing the quantum of assistance required from ADB (paras. 107–108).

The Trade Finance Program is a useful instrument during crises. The TFP is an excellent crisis-response instrument, particularly in Asia, where trade intensity is high; and for smaller DMCs that rely on foreign trade and are more vulnerable to crises. Continuation of the program could help ADB stay engaged with local banks in DMCs and would enable it to scale up the facility in response to a crisis. It could potentially strengthen the banking sector in weaker DMCs, and fill persistent gaps in markets by helping smaller DMCs access trade finance. However, its actual performance in this regard will have to be assessed in greater depth. Therefore, it would be useful to study, at a later date, the relevance and effectiveness of the TFP at the subproject/borrower level from the point of view of development impact, ADB profitability, and ADB additionality (paras. 119–129).

A medium-term focus on building social protection systems in DMCs collaboratively by development partners would enhance the DMCs' resilience to crises. Social protection programs are attractive crisis-mitigating instruments for two reasons: They have an inbuilt countercyclical bias and they protect the poor, who are the first to be affected by a crisis. If a country has an established social protection program—such as the conditional cash transfer program of Brazil or the employment guarantee program of India—it could be scaled up or down as required. In the presence of such programs, ADB's crisis support would be more effective and DMCs would become resilient to crises. However, social protection programs are often characterized by poor targeting, leakages, and waste. Thus, deeper knowledge about the operation and performance of such schemes is necessary if ADB is to rely on them in the future. In the medium term, ADB, jointly with other aid agencies, could develop comprehensive, well-targeted social protection systems in the DMCs, keeping in mind a country's vulnerabilities, affordability, and administrative and political economy matters. (Based on the assessment of governments' responses in the case study countries, particularly Bangladesh, Indonesia, Kazakhstan, and Philippines.)

Recommendations

Based on the key findings and lessons discussed above, the study makes the following recommendations for consideration by ADB Management:

(i) Create a crisis-response window for ADF-only DMCs to provide assistance at suitable cost and tenor. This will help ADB respond more flexibly and substantially to the needs of poorer and smaller crisis-affected countries.

(ii) Mainstream the CSF as a flexible crisis-response lending instrument to help ADB respond to future crises. A flexible facility could offer a range of products to assist DMCs that are eligible for OCR to respond to future crises. The tenor of the facility could be longer for countries eligible for both OCR and ADF assistance (based on assessed need) to enhance its concessionality. A flexible crisis-response instrument will considerably enhance both the timeliness and responsiveness of ADB assistance while taking into account the diverse needs of DMCs. Flexibility could also make the CSF a contingent loan with the added advantage of fast-track processing.

(iii) Strengthen macroeconomic and financial sector surveillance and surveillance capacity development to include other regions—such as the Pacific, Central and West Asia, and South Asia—to help DMCs better prepare for and manage future crises. The experience of this crisis showed that better surveillance pays off. Developing surveillance capacity in hitherto insufficiently covered DMCs and regions would further enhance ADB's ability to respond to future crises.

I. INTRODUCTION

A. Objective

1. The evaluation assessed the support of the Asian Development Bank (ADB) to developing member countries (DMCs) in their response to the global economic crisis. The purpose of evaluation is to provide real-time feedback to ADB Management and the Board of Directors on (i) the relevance of the economic crisis support regarding rationale, consistency, and design; (ii) responsiveness in terms of preparedness and how ADB implemented the support; and (iii) results in terms of achieving program outputs and anticipated outcomes sustainably. The study reviewed (i) the assistance ADB provided to DMCs to help overcome the impact of the global economic crisis, and (ii) the instruments used to provide assistance. It assessed the instruments for their strategic fit with a government's stimulus measures, the degree of coordination with the responses of other funding agencies, and the achievement of intended objectives and intermediate outcomes. The evaluation took into account the purpose and objectives[1] of ADB's crisis-response policy, and the channels of crisis transmission.

B. Evaluation Framework, Method, Data, and Limitation

2. The evaluation covered ADB's crisis-related assistance approved in 2009 and 2010 to borrowers of the Asian Development Fund (ADF) and ordinary capital resources (OCR), with particular focus on ADB's Countercyclical Support Facility (CSF) and Trade Finance Program (TFP). The CSF was new and untested.[2] Urgency dictated faster program development, and the absence of conditionality made it unique. ADB also substantially scaled up the TFP.[3] Both the CSF and TFP were major instruments in ADB's efforts to help DMCs mitigate the impact of the crisis.

3. The evaluation also selectively reviewed crisis-related, quick-disbursing program assistance to DMCs. It carried out six country case studies—Bangladesh, Indonesia, Kazakhstan, Philippines, Tajikistan, and Viet Nam. This covers all countries that received the CSF plus an ADF recipient (Tajikistan, the poorest Central Asian republic).

4. The evaluation undertook (i) a careful review of documents relating to—(a) country macroeconomic circumstances and policies prior to, during, and after the crisis; (b) ADB program and project related documents; (c) program monitoring/reviews/completion reports; and (d) related literature; (ii) structured and semistructured interviews with key informants in the government, ADB, commercial banks (for the TFP), the private sector, and civil society during field visits to the case study countries; and (iii) an analysis of most recent trends in key macroeconomic variables and policies. Given the short time lapse since the approval of the assistance, this evaluation is not intended to assess the impact of the crisis support.

5. In the case study countries, the evaluation examined in-depth the relevance and responsiveness of CSF and TFP assistance, and its initial impact on program outputs and

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1 Objectives include (i) restoring economic stability, market confidence, health of the financial system, and trade; (ii) stimulating demand through countercyclical monetary and fiscal policies; (iii) minimizing contraction of investments needed for long-term growth and social stability (infrastructure, education, and health); (iv) protecting the vulnerable and the poor; and (v) supporting structural reforms.

2 ADB. 2009. *Enhancing ADB's Response to the Global Economic Crisis—Establishing the Countercyclical Support Facility*. Manila. ADB. (2009). *Global Economic Crisis: Challenges for Developing Asia and ADB's Response*. Manila.

3 ADB. 2009. *Trade Finance Facilitation Program: Major Change in Scope and Amount*. Manila. (The program was previously referred to as the TFFP)

immediate outcomes. These findings were used to assess the CSF and TFP as instruments. In addition, the evaluation assessed the institutional effectiveness of ADB in delivering crisis-support assistance—including policy support. The questions posed and examined under different evaluation criteria are in Appendix 1. The evaluation made use of ADB's operational data in programs, and was complemented by information gathered through country case studies.[4] The assessment of the CSF was done by looking at its implementation process, ADB's program- or project-related operational data, and information generated through country studies. Assessment of the TFP was done by looking at its implementation process; conducting interviews with ADB staff, bankers, and government officials; and examining relevant literature—including the surveys on trade finance carried out by the International Monetary Fund (IMF) and the World Bank during the crisis.

C. Organization of the Report

6. The report has six chapters. Chapter II outlines the background to the crisis and the channels of transmission to and impact on DMCs. Chapter III discusses the challenges for DMCs, and their approaches and programs to overcome the problems. Chapter IV discusses the approaches and instruments that ADB used to provide crisis assistance to DMCs. Chapter V presents the overall evaluation of ADB's crisis-related assistance, looking at *relevance* and *responsiveness* of ADB assistance, and its *results.* Chapter VI summarizes the findings, raises issues for further consideration, and provides lessons and recommendations for the future.

II. TRANSMISSION OF THE GLOBAL ECONOMIC CRISIS AND ITS IMPACT ON THE ASIA AND PACIFIC REGION

A. Introduction

7. The financial crisis that originated in early 2007 in the housing finance industry in the United States (US) soon engulfed the US financial sector as a whole, as well as the finance sectors of other major advanced economies, e.g., the eurozone and the United Kingdom. The collapse, or full or partial bailouts of several iconic firms[5] of the global financial industry in September 2008 made banks and other financial institutions strongly risk averse. Credit markets shrank drastically, and risk premiums reached unsustainable levels. This hurt businesses and production, badly shook consumer confidence and investment sentiment, and triggered the worst recession since 1930. In 2009, world output shrank by 2% and the volume of world trade in goods and services fell by 10.7%.[6]

8. Asia generally endured the crisis relatively well due to the minimal exposure of its financial system to the "toxic assets" that caused turmoil in US and European financial markets. Given the improvements to financial sector governance and regulation, and better capitalization of banks after the Asian financial crisis in 1997, Asian financial markets were better prepared to withstand the shock. The spillover of the crisis into Asia was also contained, because financial markets in only a few Asian countries have strong links with US and European markets.[7] The high level of savings and the cushion provided by international reserves ensured a fairly comfortable level of liquidity in the financial sector; hence, the impact on access to credit was

[4] The structure of country case studies and the evaluation questions are in Appendix 1.
[5] For example, Fannie Mae and Freddie Mac, Lehman Bros, Goldman Sachs, AIG, and Citibank.
[6] IMF. 2010. *World Economic Outlook: Rebalancing Growth*. Washington DC: International Monetary Fund. p. 2. Based on market exchange rates. Based on purchasing parity rates, world output fell by 0.6%.
[7] ADB. 2009. *Asian Development Outlook 2009.* Manila. Part 1.

not severe in Asia overall. Developing Asia remained largely insulated during 2007 and the first half of 2008. Several DMCs had recorded one of their best growth performances in 2007. Developing Asia's average growth was 10.1% in 2007.[8] Trends in exports in the first half of 2008 pointed to another year of robust growth. DMCs were well equipped to withstand the turbulence in the financial sectors of advanced economies. Despite such sanguine expectations, the global economic crisis hit the exports and capital inflows of many DMCs and raised the cost of borrowing.[9] The flow of remittances from workers abroad decelerated or fell in many DMCs (Table 2).

B. Impact on the Asia and Pacific Region and Channels of Transmission

9. The gross domestic product (GDP) of developing Asia grew by 5.9% in 2009, better than in any other region of the world, although it was the slowest rate of growth in 8 years.[10] However, this masks the significant differential impact of the crisis across the Asia and Pacific region. Developing Asia's better performance was in large part due to impressive economic growth in the People's Republic of China (PRC) and India.[11] The weighted average GDP growth in 35 borrowing DMCs dropped from 10.9% annually in the 3 precrisis years (2005–2007) to an average of 7.9% in 2008–2009, resulting in a drop in growth of about 28% (Table 1). When the PRC and India are excluded, the fall in GDP growth rates of 33 DMCs was about 45%. In Table 1, DMCs are grouped into three categories—severely affected, moderately affected, and least affected—based on the size of impact of the crisis (details are in Appendix 2). In the 20 severely affected countries, growth drastically fell by as much as three-quarters of the precrisis rate; in the 5 moderately affected DMCs, it fell by about 25%; and in the 10 least affected countries, by 6.6%. Trade was the dominant channel of transmission of the crisis into DMCs; their economic openness determined the severity of impact on GDP growth. In 2008, the ratio of exports to GDP averaged 50% for the severely affected DMCs, 33% for the moderately affected, and 29% for the least affected.[12] Generally, large economies with strong domestic demand fared better. The economies of half the Southeast Asian countries (Brunei Darussalam, Cambodia, Malaysia, Singapore, and Thailand) contracted due to a sharp decline in their exports and investment inflows. Those with weak banking systems and/or large fiscal deficits were also more affected. As many as 14 DMCs, mostly comprising smaller island economies and those from Central Asia, had negative GDP growth in 2009.

10. Following the seizure of credit markets in the G3 economies (US, Europe, and Japan) in September 2008, global banks, creditors, and investors became highly reluctant to provide finance to developing economies and, in fact, started to withdraw the funds they had lent or invested earlier. About $510 billion of private financial flows fled developing economies in 2008, shrinking net private financial flows to $179 billion in 2008, from $689 billion in 2007.[13] Net private financial flows remained at $180 billion in 2009. For developing Asia, net private financial flows fell from $196 billion in 2007 to $34 billion in 2008; and recovered to $145 billion in 2009.[14] In 2008, net outflow of foreign investment in stocks in the Philippines was P22.2 billion. In Viet

[8] ADB. 2011. *Asian Development Outlook 2011*. Manila. p. 249. Developing Asia refers to all DMCs and the newly industrialized countries in East and Southeast Asia.
[9] W.E. James, D. Park, S. Jha, J. Jongwanich, A.Terada-Hagiwara, and L. Sumulong. 2008. "The US Financial Crisis, Global Financial Turmoil, and Developing Asia: Is the Era of High Growth at an End?" *ADB Economics Working Paper Series.* No. 139. Manila.
[10] ADB. 2009. *Asian Development Outlook 2009*. Manila.
[11] In 2009, the PRC's growth rate was 9.2% and India's, 8.0%. See *Asian Development Outlook 2011.*
[12] Based on World Bank data. http://data.worldbank.org/indicator/NE.EXP.GNFS.ZS
[13] Net private financial flows include net direct investment, net portfolio investment, and other short- and long-term investment flows.
[14] IMF. 2010. *World Economic Outlook: Rebalancing Growth.* Washington DC. p.178

Nam, the ratio of investments to GDP fell from 43.1% in 2008 to 42.8% in 2009, and the share of foreign direct investment in total investment declined from 31.5% to 25.7%. Inflow of foreign direct investment to the Central Asian republics shrank. The decline in 2009 was severe in Kyrgyz Republic (71%), Georgia (50%), and Kazakhstan (34%), seriously affecting private investment.[15] The average interest rate spread between Indonesian government bonds and US government bonds widened sharply from 318.5 basis points in the first quarter of 2008 to 850.5 basis points in the fourth quarter of 2008. In Indonesia, there was also a large outflow of about $4.5 billion of portfolio investments in the fourth quarter of 2008. Capital that was available at all became quite costly owing to exorbitantly high risk premiums. Figure 1 shows the trend in selected governments' cost of borrowing during 2008–2010.

Table 1: Severity of Impact of Global Crisis on Developing Member Countries

Developing Member Country Grouping	**Exports to GDP Ratio** (%)	**Weighted GDP Growth Rate** (%) 2005–2007	**Weighted GDP Growth Rate** (%) 2008–2009	**Reduction in GDP Growth Rate** (%)
Severely Affected (20)	49.6	7.0	1.8	(74.3)
Moderately Affected (5)	33.2	11.6	8.9	(23.3)
Least Affected (10)	29.4	6.1	5.7	(6.6)
Subtotal		**10.9**	**7.9**	**(27.5)**
Moderately Affected Excluding the PRC and India (3)		7.9	5.5	(30.4)
Subtotal		**6.7**	**3.7**	**(44.8)**

GDP = gross domestic product, PRC = People's Republic of China, ( ) = negative.

Notes**:** Classification of severity of impact: severely affected—more than 50% decline in average GDP growth rates between 2005–2007 and 2008–2009; moderately affected—20% to 50% decline in the growth rate; least affected—less than 20%. During each of the years in 2005–2007, GDP growth in Asia was higher than in any other year after 2001.

Source: Staff estimates based on *Asian Development Outlook 2011*. (Details are in Appendix 2.)

11. The scarcity, high cost, and volatility of external funding had several damaging effects on DMC economies. Sudden withdrawal or contraction of trade finance seriously hurt trade activities in many DMCs by affecting competitiveness of their exports and/or disrupting trade transactions.[16] An analysis of previous banking crises shows that they had a significant negative impact on export growth, particularly on sectors that depend on trade finance. Providing guarantees during a crisis can be good policy to help exporting firms gain access to financial markets.[17] A recent World Bank survey found that, compared with a year earlier, the cost of trade finance had increased two to three times to about 300–400 basis points over interbank refinance rates by December 2008. Tight liquidity in global financial markets made banks in developing countries selective, risk averse, and cautious, which tightened the conditions for trade finance. As well, the volume of trade finance was estimated to have contracted by 40% in the last quarter of 2008. Firms that depended on banks for trade finance suffered the most, and the impact was even worse on small and medium-sized enterprises (SMEs).[18] Curtailment of external credit from traditional suppliers affected businesses and industries, with deleterious impacts on production and jobs. In the case of Kazakhstan, a scarcity of external funds

[15] ADB. 2010. *Asian Development Outlook 2010*. Manila. p. 276.

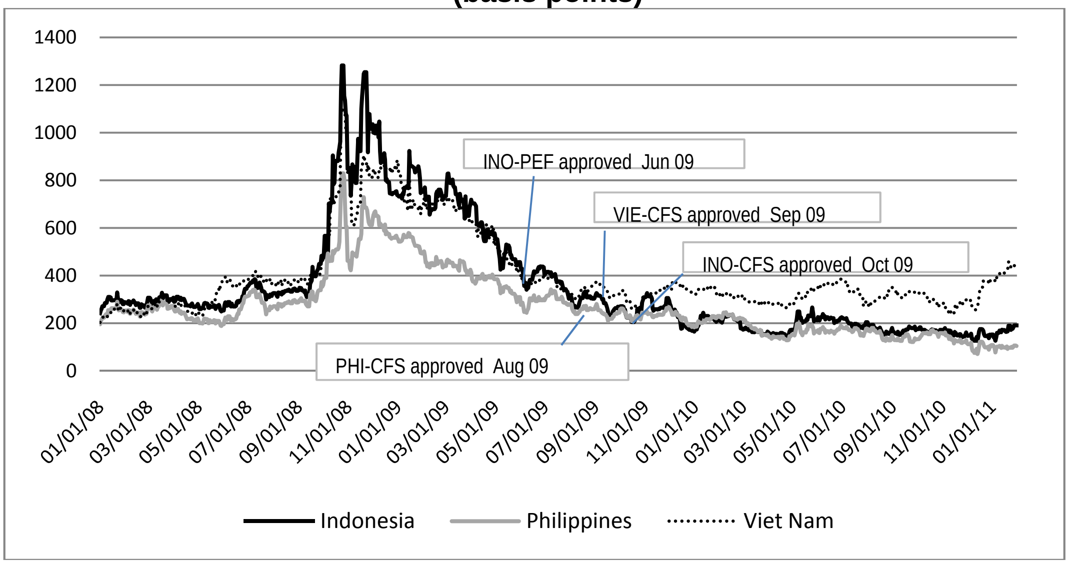
[16] According to a survey done in 2009 by IMF and the Bankers' Association for Finance and Trade, international confirming banks reported tighter guidelines for a number of countries. For a succinct summary of survey findings see T. Dorsey. 2009. Trade Finance Stumbles. *Finance and Development* (March).

[17] L. Iacovone and V. Zavacka. 2009. Banking Crises and Exports: Lessons from the Past. *Policy Research Working Paper 5016.* Washington DC: The World Bank. p. 21.

[18] World Bank. 2009. *Trade and Trade Finance Developments in 14 Developing Countries Post September 2008–A World Bank Survey.* Washington DC. pp. 4–5.

aggravated the problems in its weak banking sector and led to severe credit contraction in the economy. This in turn burst price bubbles in the property sector and stock markets, put further pressure on the quality of banking sector portfolios, and seriously hurt economic growth.[19] Georgia was hit by a double crisis: a war with the Russian Federation and later the global crisis. Inflow of foreign direct investment declined from 17.1% of GDP in 2007 to 7.1% in 2009.[20] In economies with high reliance on external debt and/or large foreign ownership of domestic debt instruments (e.g., Indonesia and Philippines), the mere possibility (and episodic evidence) of a sudden large-scale withdrawal of foreign funds injected a constant fear of turmoil into exchange rate management.[21]

Figure 1: Sovereign Bond Spreads in Selected Developing Member Countries (basis points)



CSF = Countercyclical Support Facility, INO = Indonesia, PEF = Public Expenditure Support Facility, PHI= Philippines, VIE = Viet Nam.
Source: Bloomberg.

12. A more damaging fallout of the crisis was the sharp decline in demand for exports from developing economies. By early 2008, rising unemployment in the US and other advanced economies had sharply decelerated the growth of private consumption and investment. The events of September 2008 badly hurt consumer confidence and triggered an accelerated decline in private consumption. The sharp fall in G3 imports, particularly, translated into a sudden and drastic fall in demand for DMC exports in the last quarter of 2008.[22] Exports picked up again sharply in the latter part of 2009 (Figure 2). The trend was similar in all six case study countries. In Bangladesh, for example, export growth declined from 19% during October 2007–September 2008 to –2.3% in October 2008–September 2009 and picked up thereafter.

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[19] ADB. 2009. *Asian Development Outlook 2009.* Manila, pp. 142–143.
[20] ADB. 2010. *Completion Report: Growth Recovery Support Program in Georgia*. Manila. pp. 1.
[21] Indonesia lost nearly $10 billion of reserves and its currency depreciated by 40% during fourth-quarter 2008, causing deep anxiety among its economic managers. Bank Indonesia. *Indonesia Financial Statistics*, various issues; Bank Indonesia. *Indonesia Balance of Payments Report*, various issues; and World Bank. 2009. *Indonesia Economic Quarterly*. June.
[22] While the share of DMC exports destined for US markets has shrunk since 1996, yielding to rapidly growing trade with the PRC, a detailed analysis of trade structures in East and Southeast Asian DMCs revealed that as much as 60% of their exports end up in the US, directly or indirectly (as embodied parts and components of final products assembled and exported from the PRC). See ADB. 2008. *Asian Development Outlook 2008*. Manila.

13. In 2009, exports declined by 32% in Central Asia, by 17.2% in Southeast Asia, and by 16.2% in East Asia, contributing to an overall decline of 16.4% in developing Asia.[23] A sudden drop in commodity prices adversely affected both export performance and fiscal balances of commodity exporters—Kazakhstan, Kyrgyz Republic, Lao People's Democratic Republic (Lao PDR), Mongolia, Tajikistan, and Uzbekistan.[24] Export performance and employment in the Republic of Korea, Malaysia, Philippines, Singapore, and Taipei,China suffered from a drop in electronic exports. The reduction in export demand has had an adverse impact on intraregional trade via regional supply chains. Unemployment in export-oriented industries rose sharply; the magnitude was particularly high in the PRC, where an estimated 22 million workers lost jobs in 2009.[25] Exports of labor-intensive goods (e.g., furniture, garments, leather, textiles, and toys) from Bangladesh, Cambodia, PRC, Indonesia, Sri Lanka, and Viet Nam also suffered. Surveys showed that most of these industries made labor adjustments in response to the crisis, which affected migrant workers and women the most in terms of loss of jobs and/or earnings.[26]

14. The crisis also significantly affected inward remittances in several DMCs (Table 2). Remittances—money that overseas workers send to their home country—constitute a significant source of earnings and employment for many DMCs. In 2008, remittances in 10 major recipient DMCs were estimated at $152 billion. Among countries that employ foreign workers, the oil-exporting countries of the Middle East as a group are the single largest employer, accounting for a substantial number of Asian workers. After the turmoil and contraction in demand for oil from the G3 economies, investment in construction and other projects in the Middle East fell sharply, reducing the demand for foreign workers. The inflow of remittances either decelerated or declined in many DMCs. Armenia, Georgia, Kyrgyz Republic, and Tajikistan in Central Asia; Bangladesh, India, Nepal, and Pakistan in South Asia; and the Philippines in Southeast Asia are among the countries with high reliance on remittances. In Armenia, remittances dropped by 30%,[27] and it was estimated that 40% of the population suffered due to loss of wages, remittances, and other sources.[28] Evidently, the impact was lower for countries that depend on remittances from the Middle East than for those that depend on remittances from advanced countries such as Europe and US.[29]

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[23] ADB. 2011. *Asian Development Outlook 2011.* p. 258.

[24] In 2009, oil prices declined by over 36% and non-oil prices fell by 18.7%. IMF. 2010. *World Economic Outlook: Rebalancing Growth*. Washington DC. p2.

[25] A. Bauer and M. Thant, eds. 2010. *Poverty and Sustainable Development in Asia: Impacts and Responses to the Global Economic Crisis.* Manila: ADB and ADBI. p. 6.

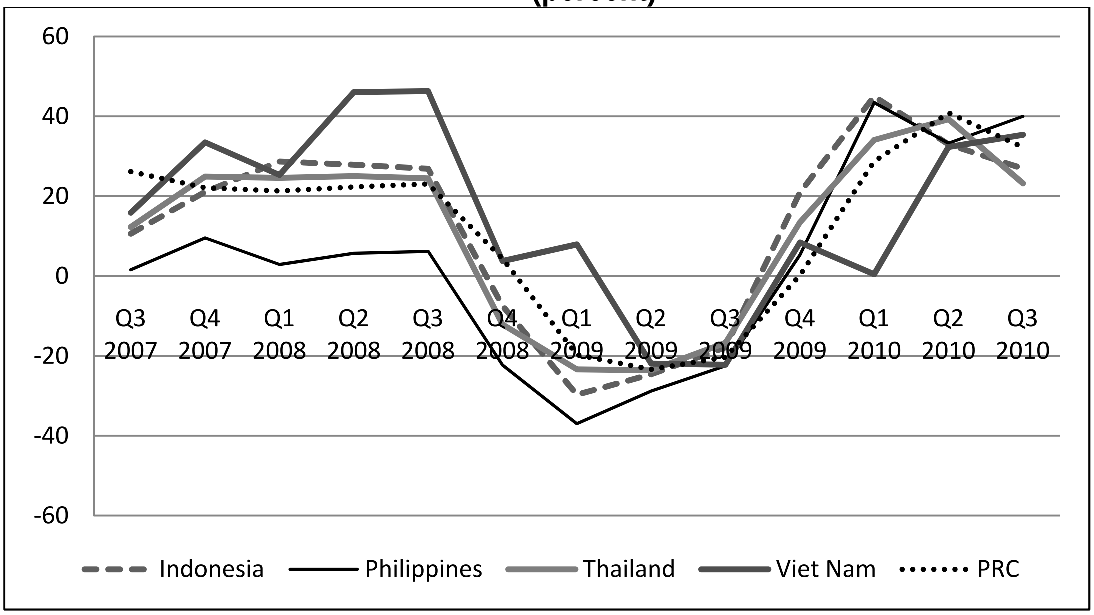
[26] R. Hurst, M. Buttle, and J. Sandars. 2010. *The impact of the global economic slowdown on value chain labor markets in Asia*. In A. Bauer and M. Thant, eds. 2010. *Poverty and Sustainable Development in Asia: Impacts and Responses to the Global Economic Crisis.* Manila: Asian Development Bank and ADB Institute.

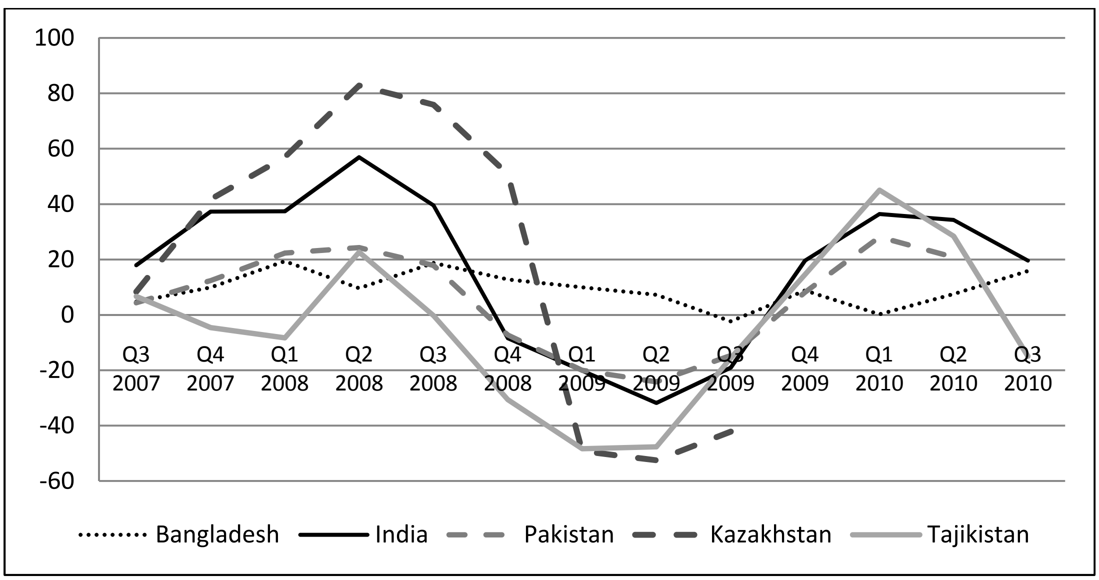
[27] ADB. 2010. *Completion Report: Crisis Recovery Support Program in Armenia.* Manila. pp. 1.

[28] World Bank. June 2010. *Armenia: The 2008–09 Global Economic Crisis, Policy Responses and Household Coping Strategies*. Armenia. pp. 11 and 35.

[29] A. Riester. 2010. *Impact of the global recession on international labor migration and remittances: Implications for poverty reduction and development in Nepal, Philippines, Tajikistan, and Uzbekistan*. In A. Bauer and M. Thant, eds. 2010. *Poverty and Sustainable Development in Asia: Impacts and Responses to the Global Economic Crisis.* Manila: Asian Development Bank and ADB Institute.

Figure 2: Quarterly Exports Growth in Selected Developing Member Countries (percent)





Source: CEIC Data Company.

Table 2: Growth of Remittances in Selected Developing Member Countries, 2006–2010
($ million)

Region/Country	2006	2007	2008	2009	2010[a]
Bangladesh	5427.5	6562.3	8940.6	10523.1	11050.2
% change	25.8	20.9	36.2	17.7	5.0
China, People's Rep. of	27954.2	38791.2	48523.5	48729.4	51000.0
% change	16.0	38.8	25.1	0.4	4.7
India	28333.6	37216.7	49940.8	49255.9	55000.0
% change	28.1	31.4	34.2	(1.4)	11.7
Indonesia	5722.4	6174.3	6794.2	6792.9	7138.6
% change	5.6	7.9	10.0	0.0	5.1
Kazakhstan	186.4	223.0	191.5	123.7	131.5
% change	4.5	19.6	(14.1)	(35.4)	6.3
Pakistan	5121.0	5998.0	7039.0	8719.8	9407.3
% change	19.6	17.1	17.4	23.9	7.9
Philippines	15251.0	16302.0	18642.0	19766.0	21310.7
% change	12.4	6.9	14.4	6.0	7.8
Tajikistan	1018.8	1690.8	2544.0	1748.2	2064.5
% change		65.9	50.5	(31.3)	18.1
Thailand	1333.1	1635.0	1897.9	1637.1	1787.5
% change	12.3	22.7	16.1	(13.7)	9.2
Viet Nam	4800.0	5500.0	7200.0	6625.9	7215.3
% change	20.0	14.6	30.9	(8.0)	8.9
Total	**95148**	**120093**	**151714**	**153922**	**166106**
% change	**20.2**	**26.2**	**26.3**	**1.5**	**7.9**

( ) = negative.
[a] estimates.
Source: World Bank. Migration and Remittances data base. http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTDECPROSPECTS/0,,contentMDK:21122856~pagePK:64165401~piPK:64165026~theSitePK:476883,00.html

III. GOVERNMENTS' RESPONSE TO THE CRISIS IN DEVELOPING MEMBER COUNTRIES

A. Governments' Response in Developing Asia

15. A review of relevant literature (Appendix 3) and interviews with government officials in case study countries revealed that Asian governments' response was decisive, timely, and in some ways unprecedented. In line with the policy recommendations of the Group of Twenty (G20) leadership, DMCs introduced fiscal expansion packages to stimulate demand. Fiscal stimulus was synchronized with monetary policy. And multiple countries acted simultaneously, which minimized free-rider problems. This proved to be an ideal recipe for success.[30] Thanks to sound fiscal and monetary management in the region, the average level of fiscal deficits in 10 major regional economies was about –0.6% of GDP during 2004–2008 as against –3.2% in the Group of Seven (G7) industrialized countries.[31] Hence, most Asian governments had adequate fiscal space to put in place sizable stimulus packages.

[30] Stimulus packages are more effective when they are well coordinated with monetary policy, implemented simultaneously by a number of countries, and temporary. See C. Freedman, M. Kumhof, D. Laxton, and J. Lee. 2009. *The Case for Global Fiscal Stimulus.* IMF Staff Position Note. Washington DC. IMF.
[31] ADB. 2010. *Asian Development Outlook Update 2010.* Manila. p. 26.

16. The PRC's packages were unprecedented in size, and those announced by India and Indonesia were large.[32] The sizes of fiscal deficits in 10 selected developing countries in Asia are given in Table 3. Countries that had lower fiscal deficits before the crisis— PRC, Indonesia, Kazakhstan, Philippines, Thailand, and Viet Nam—put in place substantial stimulus packages and raised their deficits. On the other hand, in some countries where the deficits were high before the crisis, there was fiscal contraction during the crisis—Pakistan and Tajikistan. In Bangladesh, the actual deficit in 2009 was lower than planned due to better revenue performance and shortfall in spending. While stimuli announced by many countries focused on social safety nets, some governments spent only limited amounts on social protection measures despite their relative affordability.[33]

17. Fiscal stimulus was well supported by accommodating monetary policy in all DMCs. Most monetary authorities in the region went beyond the usual to ease liquidity; policy rates were cut in stages (by 234 basis points on average) and are still low in many countries. Policy rate cuts and other liquidity operations considerably expanded financial depth[34] by about 38% between the last quarters of 2008 and 2009 in a sample of 11 large countries in developing Asia.[35] The accommodating monetary expansion provided adequate support for fiscal expansion and contributed to making the fiscal policy more effective in bringing about recovery. Besides monetary expansion, many Asian countries introduced a number of measures to reduce the vulnerability of their finance sectors. These included expansion of deposit insurance, guarantee of nondeposit liabilities, restriction on short sales, preparations for injection of capital into the banking sector, and relaxation of mark-to-market rules. The vast foreign exchange reserves gave regional economies a considerable cushion in managing the financial impact of the crisis. Given the absence of speculative attacks and with subdued outflows of foreign exchange, most countries did not experience sharp movements in exchange rates, with the exception of Indonesia and Republic of Korea. The enhanced ability to deal with external shocks also ensured investor confidence. The extensive reforms in regulation and supervision of the finance sector after the 1997 Asian financial crisis, and the prudential policies pursued to protect against volatility associated with speculative capital movements and short-term borrowings made the Asian finance sector strong enough to withstand the global economic crisis without any of its major banks failing.[36]

[32] In the PRC, the fiscal stimulus envisaged an expenditure of CNY4 trillion over 2 years from November 2008 (equivalent to 12.7% of GDP); source: ADB. 2010. *Asian Development Outlook 2010.* Manila. p. 135. Indonesia announced a Rp73.3 trillion fiscal stimulus package (1.4% of GDP) in 2009; source: ADB. 2009. *Asian Development Outlook Update 2009.* Manila. p. 137. India announced several fiscal stimulus measures between December 2008 and February 2009 amounting to about 1.5% of GDP; source: ADB. 2010. *Asian Development Outlook 2010.* Manila, p. 199.

[33] A. Bauer D. E. *Bloom*, J. E. Finlay, and J. Sevilla. *2010. Global crisis and fiscal space for social protection. In A. Bauer and M. Thant, eds. 2010. Poverty and Sustainable Development in Asia: Impacts and Responses to the Global Economic Crisis. Manila: Asian Development Bank and ADB Institute.*

[34] Measured by *M2/GDP.* M2 is defined as the sum of M1 and quasi-money where M1 denotes currency in circulation plus demand deposits and quasi-money consists of time and saving deposits including foreign currency deposits.

[35] ADB. 2010. *Asian Development Outlook 2010*. Manila. Chapter 1.

[36] ADB. 2010. *Asian Development Outlook 2010 Update*. Manila. pp. 27–28.

Table 3: Fiscal Balance in Selected Asian Countries, 2007-2011
(% of GDP)

Developing Member Country	2007	2008	2009	2010 [a]	2011[b]
Bangladesh	(3.2)	(5.1)	(4.0)	(3.7)	(4.6)
China, People's Rep. of	0.9	(0.4)	(3.1)	(2.6)	(1.6)
India	(4.0)	(7.8)	(9.4)	(8.9)	(8.0)
Indonesia	(1.0)	0.0	(1.8)	(0.6)	(1.5)
Kazakhstan	4.7	1.1	(1.4)	(1.5)	(1.8)
Pakistan	(4.0)	(7.3)	(5.2)	(6.0)	(5.0)
Philippines	(1.5)	(1.3)	(3.9)	(3.7)	(3.3)
Tajikistan	(5.5)	(5.1)	(5.2)	(3.0)	(5.4)
Thailand	0.2	0.1	(3.2)	(2.7)	(2.6)
Viet Nam	(2.5)	(1.2)	(9.0)	(6.4)	(3.9)

( ) = negative, [a] estimates for Bangladesh and Thailand, [b] estimates
Notes: Fiscal balance is defined as revenue minus total expenditure of general government.
Source: IMF. World Economic Outlook. April 2011 database.

B. Government's Response in Case Study Countries

18. The details of each government's response to the crisis in the six case study countries are in Appendix 3. Fiscal stimulus in Bangladesh focused on supporting export-oriented industries (particularly readymade garments) through subsidies and tax incentives. There was also a significant increase in antipoverty spending on employment guarantee programs and targeted subsidies. In Kazakhstan, fiscal policy focused on strengthening the banking sector and enhancing allocation for employment generation programs. In Indonesia, the Rp71.3 trillion (1.4% of annual GDP) stimulus focused mainly on tax cuts, which accounted for 79% of the package; public expenditure on unconditional cash transfers to support the poor and near-poor and on infrastructure made up the rest. The Philippines' P330 billion (about $7 billion) stimulus package focused mainly on protecting the poor, the workers in export industries, and returning overseas workers. Tajikistan's anticrisis action plan (ACAP) sought to develop SMEs and support for production sectors, assist the unemployed (in particular, returned migrant workers) in finding jobs, and protect social safety-net spending. In Viet Nam, the D145.6 trillion (about $8 billion, or 8.7% of GDP) fiscal stimulus package focused on interest subsidies (D17 trillion), public investment (D90.8 trillion), tax breaks (D28 trillion), and social spending (D9.8 trillion).

C. Conclusion

19. Asian governments in general and most of the case study countries in particular spent on government investment and consumption. Stimulus spending seems to have contributed to offsetting the negative impact of weak external demand.[37] Boosting of public spending in almost all large developing countries also seems to have helped regional recovery via trade links. Even though there is uncertainty about the impact of steep interest rate cuts on consumer spending and private investment, the governments' efforts seem to have worked. A global stimulus model by forecasters and researchers, Oxford Economics, estimated that the fiscal stimulus measures announced by large Asian countries could have significant positive impacts on growth, though

[37] S. Hur, S.Jha, D Park and P. Quising. 2010. Did Fiscal Stimulus Lift Developing Asia out of the Global Crisis? A Preliminary Empirical Investigation. *ERD Working Paper No. 215*. Manila: Asian Development Bank.

the impact on individual countries could vary depending on their economies' extent of openness, the manner of financing of public spending, impact on public debt and its sustainability, institutional preparedness, and capacity to implement the stimulus packages.[38] Developing Asia is well on its path to recovery from the global crisis and is expected to grow at 7.8% in 2011.[39] Though it is difficult to say to what extent the stimulus packages may have benefited the poor, the focus of some governments has been on stepping up spending on ongoing and/or ready-to-implement public investment projects to stimulate demand. Social protection expenditures, on the other hand, provide immediate succor to the poor and boost private consumption to have a larger short-term multiplier impact.

IV. ADB'S SUPPORT TO DEVELOPING MEMBER COUNTRIES IN THEIR RESPONSE TO THE CRISIS

A. Institutional Preparedness

20. The evaluation finds that ADB was much better prepared institutionally to respond to the global crisis than it had been in the 1997 Asian financial crisis. Planning of ADB's response to the crisis was swift, but its implementation was delayed by the constraint on its financial resources. In 1999, ADB had established the Regional Economic Monitoring Unit to (i) support the surveillance by the Association of Southeast Asian Nation (ASEAN) of member economies; and (ii) provide information, analysis, and advice on economic and finance sector developments and issues in the economies of ASEAN+3 (ASEAN, PRC, Japan, and Republic of Korea). In April 2005, ADB established the Office of Regional Economic Integration (OREI) to act as ADB's focal point for regional cooperation and integration efforts. OREI also assumed the responsibilities of the Regional Economic Monitoring Unit. This institutional arrangement has considerably enhanced ADB's ability to (i) monitor regional economies, (ii) provide policy advice to regional governments on issues of regional integration in trade and finance, and (iii) develop capacity in regional governments for economic and financial monitoring and finance sector regulation. Surveillance and monitoring focused mainly on ASEAN+3 countries.

21. After the housing downturn in the US, ADB's *Asian Development Outlook 2007* analyzed the likely impact on Asia of the deepening US economic slowdown and its spread to the G3 economies. Soon after the collapse of Lehman Brothers in September 2008, which triggered the global economic crisis, ADB Management set up a crisis-response task force to prepare ADB's assistance. In October 2008, ADB prepared a confidential assessment of macroeconomic soundness and vulnerability to the global crisis of developing Asia.[40] Soon after the assessment, ADB prepared a plan to (i) create an informal internal, interdepartmental coordination group; (ii) strengthen economic and financial surveillance and monitoring; and (iii) intervene to revive financial markets to support real economic sectors.[41]

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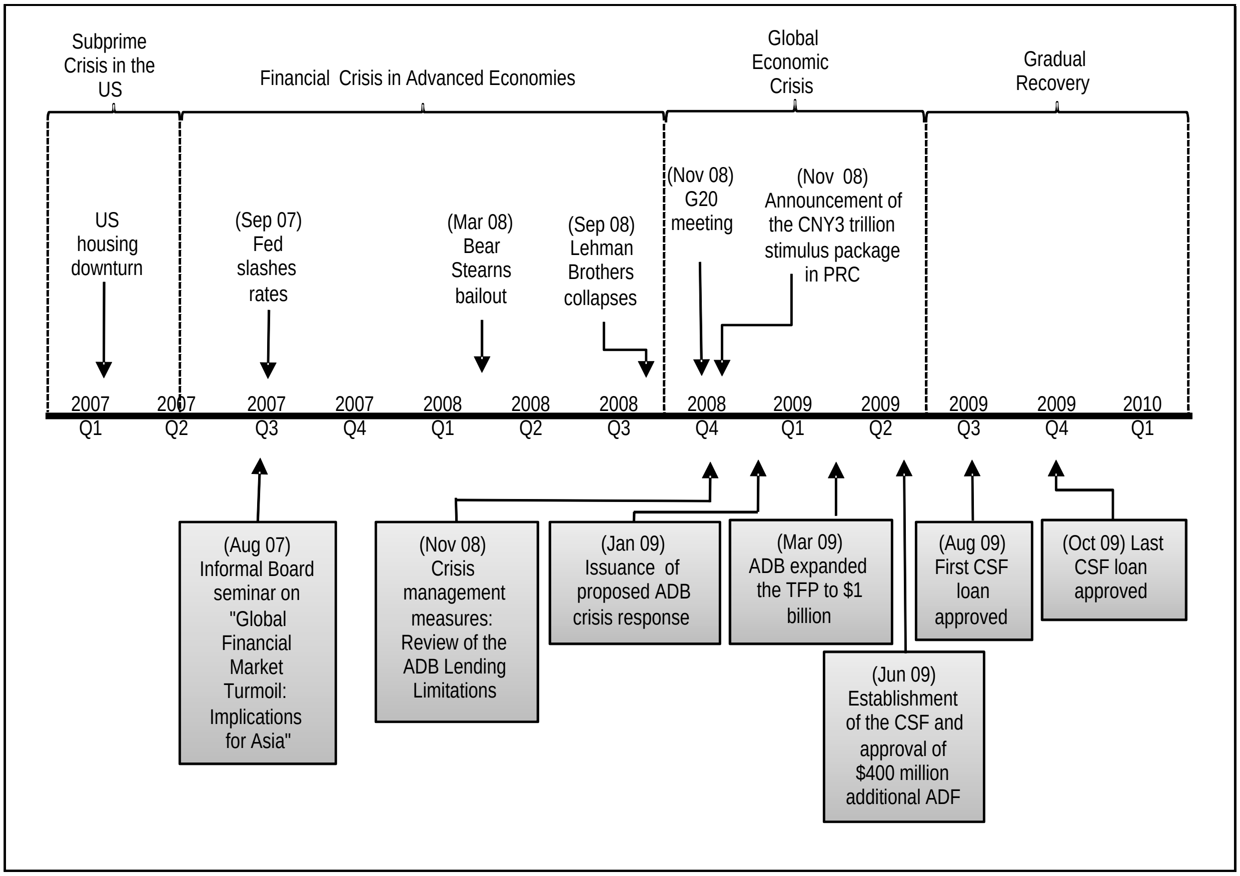
[38] ADB. 2011. *Asian Development Outlook 2011.* Manila. p. 249.

[39] ADB. 2010. *Strength of Recovery in 2010 Is Exceeding Expectations*. p.1. This update, issued in December, revised ADB's earlier growth forecast of 8.2% for 2010. http://www.adb.org/Documents/Books/ADO/2010/ado-special-note-dec2010.pdf

[40] ADB. 2008. *Global Financial Crisis and Implications for Developing Asia: Assessment of Macroeconomic Soundness and Vulnerability [Confidential].* Manila: Office of Regional Economic Integration.

[41] ADB. 2008. *Plan B: ADB Crisis Management Measures [Confidential].* Manila: Office of Regional Economic Integration.

Figure 3: Timeline of the Global Economic Crisis and ADB's Response



ADB = Asian Development Bank, ADF = Asian Development Fund, CNY = yuan, CSF = Countercyclical Support Facility, PRC = People's Republic of China, TFP = Trade Finance Program, US = United States.
Source: Staff compilation.

22. In its first operational proposal to respond to the global economic crisis, ADB sought to provide $5 billion–$6 billion of additional assistance through (i) $2 billion in increased lending in 2009, (ii) an expansion of the guarantees to about $2.1 billion, (iii) aggressive mobilization of cofinancing of at least $1 billion–$2 billion; and (iv) front-loading of ADF's 2-year allocation to respond to ADF recipients.[42] The policy also indicated that ADB would work closely with development partners and DMCs to design its crisis response so as to (i) restore economic stability, market confidence, health of the financial system, and trade; (ii) stimulate demand through countercyclical fiscal stimulus; (iii) minimize contraction of investments needed for long-term growth and social stability (infrastructure, education, and health); (iv) protect the vulnerable and the poor; and (v) support structural reforms.[43] The proposal was not specific about the instruments to be used to deliver the assistance.

23. All operations departments, too, were much better prepared to provide financial and knowledge support to DMCs than during the Asian financial crisis. At that time, ADB had found it hard to mobilize suitable instruments to respond to the crisis and participate in the international rescue programs alongside IMF and the World Bank. A review of the program lending policy

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[42] ADB. 2009. *Global Economic Crisis and Proposed ADB Response.* Manila. January.
[43] ADB. 2009. *Global Economic Crisis: Challenges for Developing Asia and ADB's Response*. Manila. Appendix 1.

became an imperative and was undertaken in 1999.[44] It proposed special program loans as an instrument to respond to crises. In addition, a significant increase in policy-based lending since 1997 gave operations departments more opportunities to have extensive engagement with their client governments in policy dialogue, policy reform, institutional development, and knowledge dissemination activities.

24. But ADB's ability to mount crisis-response operations in 2009 was constrained by the limited capital headroom. In December 2008, ADB reviewed its lending limitation and borrowing limitation policies.[45] The revised policy created some temporary latitude, but still not enough for serious crisis-response operations. An increase in ADB's capital became imperative. In fact, the headroom constraint had become so severe that, without an increase in capital, ADB would have found it difficult to maintain its level of lending beyond the immediate future. A signal of shareholders' willingness to support multilateral development banks' resources was given by G20 leaders after their Washington summit in November 2008, when they urged multilateral development banks to support anticrisis fiscal expansion in developing countries. A more specific assurance of support to ADB came in March 2009, when G20 finance ministers stressed their commitment to mobilize resources of international financial institutions to assist countercyclical spending, and indicated that they would ensure a substantial capital increase for ADB.[46] Soon after, G20 leaders pledged an additional $850 billion for IMF and the multilateral development banks, including a 200% increase in ADB's capital, to help poorer countries cope.[47] The emphasis was on countercyclical support, which needed to be mobilized quickly to enhance spending on infrastructure, social protection, and trade finance. As it happened, ADB was in an advanced stage of consultations with donors for an increase in the size of its capital following the adoption of its long-term strategy.[48] It was ready with the policy paper for a capital increase by March 2009, making it better prepared to respond quickly.

25. Despite such clear indication of capital support and readiness with a fairly detailed assessment of how the crisis was likely to affect different DMCs and the kind of assistance they might need, ADB was cautious in taking advance action in the early part of 2009. Having the CSF approved by the Board, and developing and processing crisis-related proposals in early 2009 using the existing latitude in anticipation of the capital increase would have improved the timeliness of assistance. In particular, processing of time-sensitive operations like the contingent loan to Indonesia would have enabled ADB to provide assistance almost in tandem with the World Bank in late March–April 2009.

B. Instruments Used

26. In addition to scaling up its regular operations, ADB introduced a new instrument, the CSF, increased the resource allocation to ADF recipients, and expanded the TFP. It aimed to (i) provide substantially enhanced support to DMCs to respond to the crisis, (ii) tailor crisis assistance to the specific circumstances and needs of DMCs, (iii) support both the public and private sectors with higher levels of concessional and nonconcessional lending and guarantees in 2009–2010, (iv) increase the volume of lending and create facilities to provide countercyclical support and access to trade financing, and (v) accelerate lending to low-income countries.

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[44] ADB. 1999. *Review of ADB's Program Lending Policies*. Manila.
[45] ADB. 2008. *Review of the Asian Development Bank's Lending Limitation [Confidential].* Manila.
[46] G-20. 2008. *Communiqué*. Meeting of Finance Ministers and Central Bank Governors, United Kingdom, 14 March 2009. London.
[47] G-20. 2009. *Declaration on Delivering Resources Through the International Financial Institutions*. London. April.
[48] ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank 2008–2020*. Manila

1. Countercyclical Support Facility

27. The $3 billion CSF established in June 2009 aimed to sustain critical public expenditure during the crisis.[49] Access to the CSF was based on three criteria: (i) adverse impact of the global economic crisis, (ii) planned countercyclical development expenditure for poverty reduction and/or development of infrastructure, and (iii) sound macroeconomic management. CSF support was meant (i) to be provided in coordination with other key development partners, (ii) to support governments' confirmed countercyclical response or program, and (iii) to be processed quickly using ADB's emergency assistance procedures. The facility had a 5-year tenor with a 3-year grace period; it carried an interest rate of 200 basis points above the London interbank offered rate and a commitment fee of 0.75%. CSF assistance carried no conditionality to ensure that resources would be available to governments as soon as possible. It envisaged monitoring key macroeconomic and fiscal conditions of CSF borrowers, including the countercyclical development expenditure or policy program, about every 6 months during the life of the facility, and reporting to the Board annually. ADB also required that its assistance, as much as possible, should be used to improve social protection for the unemployed, the poor, and other vulnerable sections of the population.

2. Enhanced Assistance to ADF countries

28. To help poorer countries with weak fiscal capacity and limited access to nonconcessional funds, ADB approved an additional $400 million ADF commitment authority to help the most fiscally stretched ADF-only countries. In order to support ADF-eligible borrowers' stimulus and social protection packages, ADB allowed front-loading of up to 100% of their biennial (2009–2010) ADF allocation.

3. Trade Finance Program

29. ADB expanded the size of its TFP from $150 million to $1 billion in March 2009 to help improve access to trade finance and to stimulate flagging trade in the region, particularly in less developed member countries (footnote 3). The TFP works exclusively through banks.[50] Its objectives are to (i) provide tangible support to DMCs' intraregional and international trade; (ii) promote institutional capacity building of DMC banks; (iii) fill persistent market gaps for trade finance in the most challenged DMCs, reduce costs, and improve safety in trade transactions for exporters and importers; (iv) increase the liquidity of DMC banks by eliminating the need to post cash collateral with international banks; (v) provide hard-currency revolving credit loans, and (vi) promote small and medium-sized industries and intraregional finance. The TFP has three features: (i) it is a useful countercyclical instrument that can be scaled up in a crisis to stimulate trade; (ii) it promotes institutional and market development in less developed member countries by helping strengthen fiduciary and governance standards in the banking sector; and (iii) it promotes partnerships between local banks in DMCs and international banks, which can also facilitate transfer of knowledge and technology.

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[49] ADB. 2009. *Enhancing ADB's Response to the Global Economic Crisis—Establishing the Countercyclical Support Facility*. Manila. pp. 18–19

[50] http://www.adb.org/TradeFinance/program-works.asp

C. Analytical and Policy Support

1. Knowledge Departments

30. Knowledge departments of ADB—the Asian Development Bank Institute, Economics and Research Department, OREI, and Regional and Sustainable Development Department—collaborated to produce the analytical work necessary to provide credible and reliable policy advice to Management and DMCs.

31. ADB's two key periodical publications—*Asian Development Outlook* (and its *Update*), and *Asia Economic Monitor*—became important vehicles for disseminating, on a quarterly basis, knowledge and analysis concerning the likely impact of the global economic crisis on the region and on selected DMCs.[51] For example, the December 2007 issue of the *Asia Economic Monitor* analyzed the risks to the region's economic growth and the finance sector from the financial market turbulence and a possible recession in the G3 economies. It made several policy recommendations encompassing macroeconomic management and banking sector regulation.[52] The *Asian Development Outlook 2007* debunked the uncoupling hypothesis. It showed that exports of developing Asia (particularly East and Southeast Asia) remained closely linked with retail sales in G3 markets, and it cautioned members about the likely adverse impact on the region of a hard landing in G3 economies.[53] Notably, this was the first warning to Asian countries from an international organization about the risk of a US slowdown (especially, if spreading to G3 economies) to jolt them out of widespread complacency on decoupling. However, like other multilateral agencies, ADB knowledge departments could not predict–and could not have been expected to provide specific warnings about–the events of September 2008 that precipitated the global economic crisis.

32. Besides these regular relevant publications, knowledge departments produced a greater number of working papers and other knowledge products, and conducted seminars and workshops to disseminate information on various facets of the crisis, its impact on Asia, and policies to combat it.[54] The information provided by ADB departments was sought after, as is evident from a significant increase in the number of visitors to their websites and products.[55]

33. The knowledge departments periodically briefed ADB Management; the Board of Directors; and political, administrative, and business leaders, particularly within ASEAN+3, on the likely consequences of the crisis on Asia. The Board was briefed twice before the US financial crisis became a global economic crisis—in August 2007 on "Global financial market turmoil: implications for Asia" and in April 2008 on "How resilient is Asia to the current global turmoil."

2. Operations Departments

34. Operations departments, too, were well prepared to embed knowledge in their lending products—an increase in policy-based operations in areas like public resource management,

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[51] The *Asia Economic Monitor* is published in July and December. The *Asian Development Outlook* is published in April and its *Update* in September.
[52] ADB. 2007. *Asia Economic Monitor 2007*. Manila. December.
[53] ADB. 2007. *Asian Development Outlook 2007.* Manila.
[54] A list of knowledge products on the global economic crisis from knowledge departments is in Appendix 4, Table A4.1.
[55] For example, visitors to the *Asia Economic Monitor* rose from 134,500 in 2007 to 324,800 in 2010. During the same period, the number of unique visitors to the OREI site rose from 55,000 to 93,000.

finance sector, and governance reforms had deepened their analytical capabilities. This experience helped them respond quickly and effectively, particularly in countries where they have an ongoing policy engagement through program lending. These capabilities have helped operations departments to respond quickly and effectively particularly in countries where they already have an ongoing policy engagement through program lending. There is strong evidence of active engagement of operations departments with their client governments during the crisis. ADB's crisis-related knowledge products were quite extensive in their coverage of topics and countries. Officials in Bangladesh, Indonesia, Kazakhstan, Philippines, and Viet Nam, in particular, told the independent evaluation missions that they valued the policy advice ADB had provided during the crisis. In Bangladesh and Tajikistan, officials cited the proactive role of the resident missions

35. The South Asia Department commissioned a study to analyze the genesis of the global economic crisis, response to the crisis, issues and challenges facing Asian policy makers, and the longer term implication for Asian countries. The study covered 19 countries across Asia.[56] ADB organized three pan-Asia forums under this initiative that brought together a large grouping of ministers of finance and central bank governors from Asia and the Pacific to exchange views on the impact of and policy responses to the crisis. These events were timely, were responsive to DMC needs, and contributed to shaping crisis mitigation policies. This technical assistance was used to scale up monitoring capacity development outside of ASEAN. In addition to the study a significant body of work was undertaken and included (i) two dedicated South Asian Working Papers,[57] (ii) two dedicated flash notes that were circulated widely across Management, (iii) a number of discussion papers for the three forums and (iv) two highly relevant operational framework papers for improved surveillance for Bhutan and the Maldives. ADB Management was also briefed on the vulnerabilities of South Asian countries. Bangladesh received technical assistance to enhance analytical and policy formulation capacity in the Ministry of Finance, and was the beneficiary of a knowledge product, “Global Economic Crisis: Impact on Bangladesh and Policy Response.” [58]

36. In East Asia, ADB used technical assistance and staff inputs to provide knowledge support. In Mongolia, ADB provided technical assistance to (i) strengthen management of the country’s Social Support Program, and (ii) better manage systemic risk in the banking sector—both considered high-priority areas in a crisis situation.[59] In the PRC, both staff inputs and technical assistance were used to provide policy support, often in response to specific requests from the government. Technical assistance was used to provide support to the government on high-priority areas like the use of the Labor Contract Law for informal employment, and the use of fiscal and monetary policies for employment creation.[60] In addition, ADB provided, often in

[56] ADB. 2008. *TA 6508-REG: South Asia Forum on the Impact of the Global Economic and Financial Crisis.* Manila. The study covered Afghanistan, Armenia, Azerbaijan, Bangladesh, Bhutan, PRC, Georgia, India, Indonesia, Kazakhstan, Maldives, Mongolia, Nepal, Pakistan, Philippines, Sri Lanka, Tajikistan, Thailand, and Uzbekistan. It produced two key publications: H.S. Kohli and A. Sharma, eds. 2010. *A Resilient Asia Amidst the Global Financial Crisis: From Crisis Management to Global Leadership.* Manila. Asian Development Bank; and S. Brunschwig B. Carrasco,T. Hayashi, and H. Mukhopadhyay.. 2011. The Global Financial Crisis: Impact on Asia and Emerging Consensus*, ADB South Asia Working Paper Series No.3*. Manila.

[57] They are: (i) B. Carrasco, T. Hayashi, and H. Mukhopadhyay. 2010. “The Impact of the Global Crisis on South Asia,” *South Asia Working Paper* Series No. 1. Manila: Asian Development Bank; and H. Mukhopadhyay. 2010. India’s Monetary Policy Accommodation during the Global Crisis—Was it Effective? In Ghosh Dastidar, et al (eds). *Essay in Honor of Anjan Mukherji*. New Delhi: Oxford University Press .

[58] ADB. 2009. *TA 7369-BAN: Strengthening Macroeconomic and Fiscal Monitoring in the Ministry of Finance.* Manila.

[59] ADB. 2009. *TA 7397-MON: Policy and Institutional Support for Banking Sector Systemic Risk Management.* Manila. ADB. 2009. *TA 7300-MON: Strategic Capacity Development for Social Sectors.* Manila.

[60] ADB. 2009. *TA 7313 –PRC: Facility for Policy Reforms and Capacity Building III.* Manila.

response to demand, pertinent advice on a range of topics using short policy notes called "Observations and Suggestions."

37. In the Pacific, ADB started the quarterly publication *Pacific Economic Monitor* in May 2009 to analyze the economic situation, assess risks and scenarios, and discuss economic management issues in individual countries. The publication also carried special coverage of the global crisis and its impact on the region. In addition, ADB produced special publications on the crisis to brief DMCs in the Pacific.[61] ADB also coordinated meetings of funding agencies active in the Pacific countries to discuss crisis-related assistance.

38. In Southeast Asia, ADB had in-depth policy dialogue with Cambodia, Indonesia, Lao PDR, Philippines, Thailand, and Viet Nam to assess the impact of the global crisis on these countries. The discussions formed the basis for the crisis-related assistance that ADB provided to some of these countries. In Hanoi, Viet Nam, a high-level conference on "The Impact of the Global Economic Slowdown on Poverty and Sustainable Development in Asia and the Pacific" deliberated on how countries in the region could mitigate the adverse social and environmental impact of the global economic crisis on Asia and the Pacific, especially on the poor and vulnerable.[62]

39. ADB also published an in-depth analysis of the impact of the global crisis on poverty in Asia.[63] In Central and West Asia, ADB assessed the impact of the crisis on Armenia, Georgia, Kazakhstan, Tajikistan, and Uzbekistan and disseminated the findings. ADB also carried out studies in seven countries—Afghanistan, Armenia, Georgia, Kyrgyz Republic, Nepal, Sri Lanka, and Tajikistan—to examine the role and performance of central banks in low-income and fragile countries where internal and external shocks exacerbated the impact of the crisis.[64]

40. While ADB's knowledge departments coordinated better than before in preparing crisis-related knowledge products, coordination between knowledge departments and operations departments, and among the operations departments, could have been stronger. Early in the crisis, the Economics and Research Department did set up a regional economic task force comprising economists from OREI and operations departments to discuss and exchange views on macroeconomic issues. The task force, however, narrowly focused on macroeconomic issues—particularly on economic monitoring and forecasting. There could have been a better two-way flow of information between knowledge departments (which have strong analytical capabilities on macroeconomic and finance sector issues) and the operations departments (whose strength lies in sector-specific issues and country-level monitoring). Knowledge departments could have packaged and made available their output in formats and forms that were more accessible to sector specialists in the operations departments, to enhance their understanding of the impact of the global economic crisis on specific sectors and countries. Better coordination, through an identified nodal leader, between operations and knowledge departments would have created synergies, economies of scale in knowledge production, and cross-regional fertilization of experiences and ideas. Discussions with operations personnel revealed that, for some reason, they did not make much use of ADB's in-house knowledge

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[61] ADB. 2009. *Taking the Helm: A Policy Brief on a Response to the Global Economic Crisis*. Manila. ADB. 2008. *Navigating the Global Storm: A Policy Brief on the Global Financial Crisis.* Manila

[62] The proceedings of the conference were published in ADB. 2010. *Poverty and Sustainable Development in Asia: Impacts and Responses to the Global Economic Crisis*. Manila.

[63] A. Bauer and M. Thant, eds. 2010. *Poverty and Sustainable Development in Asia: Impacts and Responses to the Global Economic Crisis*. Manila: ADB and ADBI. p .6.

[64] S. Akhtar, H. Lorie, and A. Petersend. 2009. *Effectiveness of Central Banks and their Role in the Global Financial Crisis: Case of Selected Economies.* Manila. ADB

products, and often preferred to obtain knowledge inputs through their own sources, such as consultants, technical assistance studies, and outside publications. Similarly, there seems to have been inadequate crisis-related coordination and collaboration among operations departments. While all undertook dissemination activities for the DMCs and regions they served, there is little evidence of collaboration and sharing of experience and resources.

3. Surveillance

41. Macroeconomic and financial sector monitoring and surveillance are quite strong in ASEAN+3 due to OREI's focus exclusively on the subregion. ADB has (i) developed a robust regional economic surveillance system, (ii) invested in capacity development for surveillance and gained valuable experience, and (iii) actively conducted regional economic policy dialogue to enhance communication with DMC governments. Outside of ASEAN region, an attempt was made to enhance surveillance in South Asia during the crisis period (footnote 56).The process has substantially enhanced ADB's understanding of issues relating to regional economic and financial architecture, financial sector development, and trade and regional integration. This body of knowledge and close working relationships with senior level policy makers in the region did help improve ADB's institutional preparedness for shaping its response to the crisis. These benefits could be extended to other regions through collaborative effort between OREI and operations departments—particularly the resident missions. Such cooperation could form the basis for better coordination between knowledge and operations departments in knowledge production and dissemination in the future. Better and more extensive surveillance of inadequately covered DMCs and regions could enhance ADB's ability to respond more appropriately to future crises and improve the targeting of assistance to more needy countries.

D. Operational Response

42. Unlike the Asian crisis in 1997–1998, which took most regional as well as nonregional observers and policy makers by surprise, the global economic crisis had put the DMCs on notice before it actually affected them. ADB's response to the crisis was in line with the recommendations of G20 leaders after the London Summit (November 2008), which called for a coordinated fiscal expansion by countries across the world to compensate for falling aggregate global demand.[65] ADB focused on helping DMCs expand public expenditure to shield the poor and vulnerable sections of their populations. ADB also recognized the need to safeguard the potential for future growth by supporting the private sector, and investments in infrastructure development.[66]

1. Enhanced assistance and its distribution

43. ADB increased its assistance to DMCs in 2009 and 2010 (Figure 4 and Appendix 4, Table A4.2). It increased assistance to sovereigns by 46%, from about $9.5 billion in 2008 to $13.9 billion in 2009. However, ADB's overall assistance excluding the TFP rose by only 28% in 2009, to $14.8 billion—a decline in nonsovereign assistance (excluding the TFP) reflected the changes in investor sentiment during the crisis. Assistance through the TFP increased more than fourfold in response to demand in 2009, to reach $1.9 billion, of which only $633 million used ADB resources; the balance was mobilized from private sector cofinancing. In 2010, nonsovereign assistance doubled to reach over $2.1 billion—close to precrisis levels—reflecting a return of business confidence. ADB had mobilized close to three times more cofinancing in

[65] G-20. 2008. *Communiqué*: Meeting of Finance Ministers and Central Bank Governors, United Kingdom, 14 March 2009. London.
[66] ADB. 2009. *Global Financial Crisis and Proposed ADB Response*. Manila.

2009 than in 2008, and the level of cofinancing increased even further in 2010. Sovereign assistance of about $5 billion, approved for 24 operations in 18 DMCs during 2009–2010, was directly crisis related (Appendix 4, Table A4.3). Of this, the CSF provided $2.5 billion—$500 million each to Bangladesh, Indonesia, Kazakhstan, Philippines, and Viet Nam.[67] In Bangladesh, the CSF loan was processed together with the Public Expenditure Support Facility (PESF). Much of the crisis-related assistance, including the five CSF loans and a contingent loan to Indonesia, was in the form of quick-disbursing program loans. In Central Asia, in June 2009, ADB provided ADF assistance to three countries to support the governments' efforts to stem rising unemployment, restore finance sector stability—which had been upset by a sudden drop in property prices and abrupt curtailment of access to external finance—and ring-fence public spending on social safety nets to protect the poor and the vulnerable. [68] Besides coordinating its assistance with other aid agencies, ADB embedded these three programs in IMF's Stand-by Arrangement financing plans. ADB also provided $35 million for an economic recovery program in the Maldives as part of a multidonor emergency package that also included an IMF Stand-by Arrangement.[69]

44. The countries that were severely affected by the crisis received relatively little ADB assistance. About 60% of the $23.4 billion sovereign assistance provided in 2009 and 2010 went to only five borrowers (Bangladesh, PRC, India, Indonesia, and Viet Nam); of these, three (PRC, India, and Viet Nam) were considered moderately affected and two (Bangladesh and Indonesia), least affected. Only two of the five CSF recipients were severely affected by the crisis. Table 4 shows that ADB assistance to the least-affected countries increased by 75% in 2009, but assistance to the severely affected countries rose by only 41%. Most severely affected countries are small, ADF-only countries, and some are fragile states. Appendix 4, Table A4.3 shows the allocation of the $5 billion crisis-related assistance to 18 DMCs—nearly 87% of it went to six countries (Bangladesh, Indonesia, Kazakhstan, Pakistan, Philippines, and Viet Nam) of which three were severely affected (Kazakhstan, Pakistan, and Philippines), one was moderately affected (Viet Nam), and two were least affected (Bangladesh and Indonesia). As shown in Appendix 4, Table A4.4, the growth of crisis-response assistance was equal (about 42.7%) for both severely and least-affected countries.

45. Several factors contributed to this apparent imbalance in outcome. Foremost was the inflexibility of allocation of ADF resources, because a large majority of severely affected DMCs were ADF-only countries. Some suffered from weak macroeconomic management and dysfunctional implementation systems that put the relevance of conventional crisis assistance in doubt. Limited capacities to monitor the economy and develop suitable crisis programs might have also restricted their ability to access ADB assistance. None of this was new to ADB.

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[67] ADB. 2009. *Report and Recommendation of the President to the Board of Directors (RRP) on Proposed Program Loans to the People's Republic of Bangladesh for the Public Expenditure Support Facility Program and Countercyclical Support Facility Support Program*. Manila; ADB. 2009. *RRP on a Proposed Loan to the Republic of the Indonesia: Countercyclical Support.* Manila; ADB. 2009. *RRP on the Proposed Kazakhstan Countercyclical Support Loan.* Manila; ADB. 2009. *RRP on the Proposed Loan to the Republic of the Philippines for Countercyclical Support.* Manila; and ADB. 2009. *RRP on the Proposed Loan to the Socialist Republic of Viet Nam: Countercyclical Support.* Manila.

[68] ADB. 2009. *Report and Recommendation of the President to the Board of Directors (RRP) on the Proposed Program Loans: Georgia Growth Recovery Program.* Manila. ($80 million); ADB. 2009. *RRP on the Proposed Program Loans: Armenia Crisis Recovery Program.* Manila. ($80 million); and ADB. 2009. *RRP on the Proposed Asian Development Fund Grant Crisis Recovery Support Program (Tajikistan)*. Manila ($40 million).

[69] ADB. 2009. *Report and Recommendation of the President to the Board of Directors on the Proposed Program Loan, Technical Assistance Loan, and Technical Assistance Grant—Republic of the Maldives: Economic Recovery Program.* Manila.

Further, ADB research had shown that DMCs with very high reliance on exports would be among those most affected by the crisis. Nonetheless, ADB efforts to find ways to help the most vulnerable DMCs through adequate funds and nonfund instruments fell short of the requirements, owing in large part to the absence of a separate crisis-response window for ADF-only borrowers.

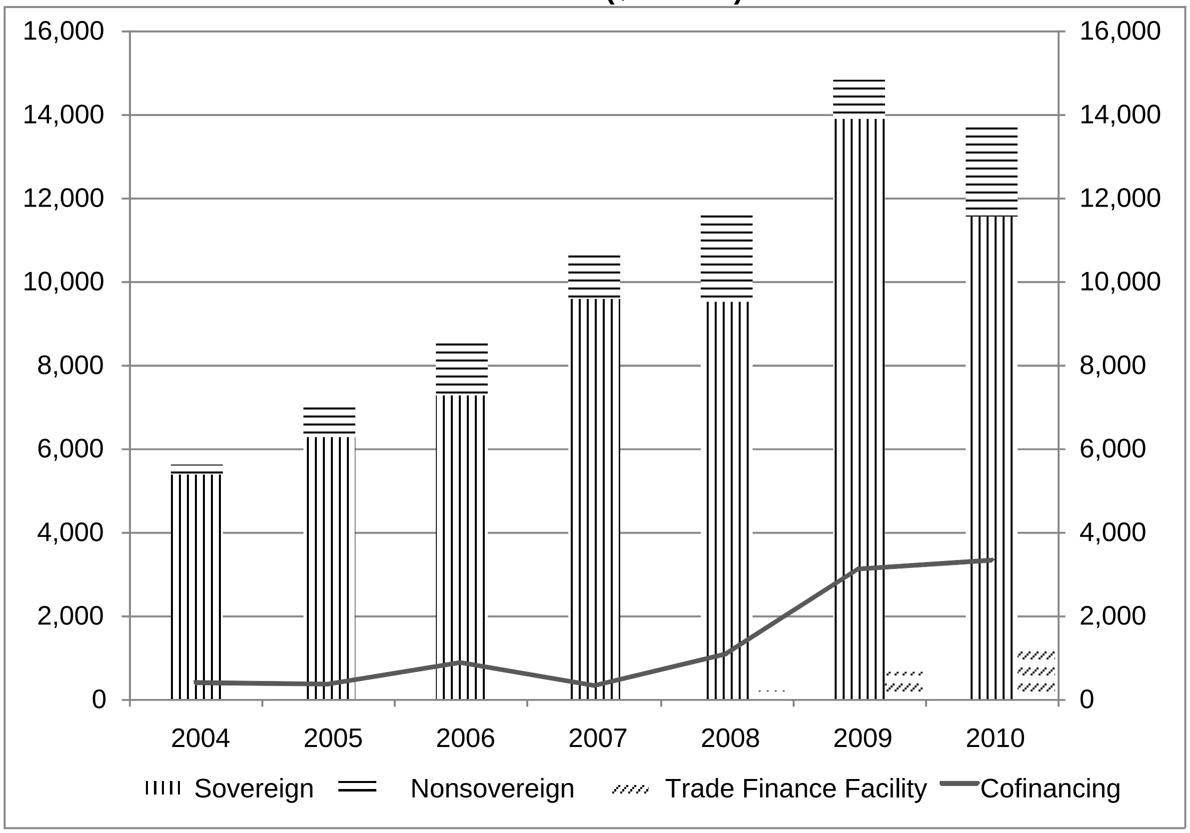
2. Disbursements and net resource transfers

46. What matters most in a crisis situation is not how much assistance ADB approves, but how much is actually disbursed. Owing to better use of the program modality and other measures to expedite disbursement (net resource transfer) of crisis assistance, overall disbursements jumped by about 19% from $8.95 billion to $10.64 billion in 2009, and the disbursement ratio for sovereign and nonsovereign operations increased to 30.7% from an average of 25% in earlier years (2004–2008). As the crisis began to weaken and the emphasis on program loans declined, the overall disbursement ratio fell to 24.2% in 2010 as a result of fewer disbursements (Figure 5 and Appendix 4, Table A4.5).

47. Given the large increase in assistance approvals and disbursements during 2009, net resource transfers to borrowing member countries increased by 42% from 2008 (Table 5). In 2010 net resource transfers were lower than in 2008 (by about 19%). As in the case of overall approval of ADB assistance, growth in disbursements to severely affected countries was lower than to moderately affected and least-affected countries. The pattern of net resource transfers was equally imbalanced. The increase in net resource transfers in 2009 was 27% for the group of severely affected countries, but it was 45% for the moderately affected group and 80% for the least-affected group. This happened despite ADB's effort to substantially increase resource flows to a few severely affected countries—Armenia, Azerbaijan, Cambodia, Georgia, Kazakhstan, Pakistan, and Philippines. More importantly, in 2009, net resource transfer from ADB was negative or zero to nine countries; eight of them were severely affected, small island countries in the Pacific. Many of them had negative GDP growth in 2009. Among the least-affected countries, net resource transfer to Indonesia was negative $272 million (Appendix 4, Table A4.8).

48. To enable the delivery of substantially ramped-up assistance approvals and disbursements—much of it in 2009, when the crisis was at its severest—ADB stretched its organizational and staff resources to the fullest. A total of 188 operations were processed in 2009–2010 compared with 140 operations over the previous 2 years. To speed up processing, ADB also made several modifications to its procedures and requirements. These actions showed ADB's readiness and capacity for making quick changes to the organization and its practices in response to DMCs' urgent needs for crisis assistance, and the DMCs appreciated this.

Figure 4: Sovereign and Nonsovereign Operations, Approvals, 2004-2010 ($ million)



Source: Based on data provided by Central Operations Services Office.

ADB's Response in the Pacific Islands

The impact of the global economic crisis was severe on many islands in the Pacific. The decline in the region's average growth rate from 5.3% in 2008 to 4.2% in 2009 appears modest. Yet, 11 of the 14 countries in the region had either negative or near zero GDP growth rates in 2009.[1] GDP grew only in Timor-Leste and Papua New Guinea (minerals and petroleum exporters) and in Vanuatu (a key reformer) in 2009. A decline in prices of exports, and a fall in tourism receipts and remittances hit the reset of the countries. Remittances to Samoa and Tonga fell by 20%. The erosion of equity prices hit the value public offshore investment funds of many countries and adversely affected their revenues. The decline in construction, retail and wholesale trade, and manufacturing affected the poor most. It is estimated that about 50,000 people (2.4% of the Pacific islands' population) would have slipped into poverty by end-2010 due to the global economic crisis.

The economic slowdown hit government revenues hard, particularly in Fiji, Marshall Islands, Samoa, Solomon Islands, and Tonga. However, governments in the region had resisted the temptation to cut spending either by avoiding or limiting cuts in infrastructure investment, maintenance, and other nonpayroll expenses. They relied on fiscal policy to manage the crisis. Cook Islands, Papua New Guinea, and Samoa spent more on public investment, while Timor-Leste maintained its precrisis upward trend in investment spending. Marshall Islands and Samoa prioritized expenditures to restrict cuts on service delivery. Fiji devalued its currency by 20% in 2009.

ADB's Pacific Operations, 2008-2010
($ million)

Year	ADF	% Change	OCR	% Change	Total	% Change
2008	147.2		8.6		155.8	
2009	186	26.3	136.7	1,489	322.7	107.1
2010	97	(47.8)	53.5	(60.8)	150.5	(53.3)
2009 -2010	141.5	(3.9)	95.1	1,106	236.6	51.9

ADF = Asian Development Fund, OCR = ordinary capital resources,
( ) = negative.
Note: % change over the previous year. For 2009–2010 over 2008.
Source: ADB Annual Reports (various issues).

ADB's overall operations increased by 52% during 2009–2010 over 2008 (see table above). ADB provided four economic recovery support programs to Cook Islands, Samoa, Solomon Islands, and Tonga. The programs provided the budget support needed to boost government expenditure, or, in the most difficult cases, to simply preserve delivery of essential services. In 2008, ADB published its analytical studies that developed a framework for crisis mitigation measures in DMCs in the Pacific.[2] ADB also enhanced its monitoring of the Pacific islands since May 2009 to analyze the current economic situation, assess risks and scenarios, and discuss economic management issues in individual countries in the region. The results are published quarterly in the *Pacific Economic Monitor.* ADB provided technical assistance to help formulate and implement country-specific actions to respond to the global economic crisis.[3]

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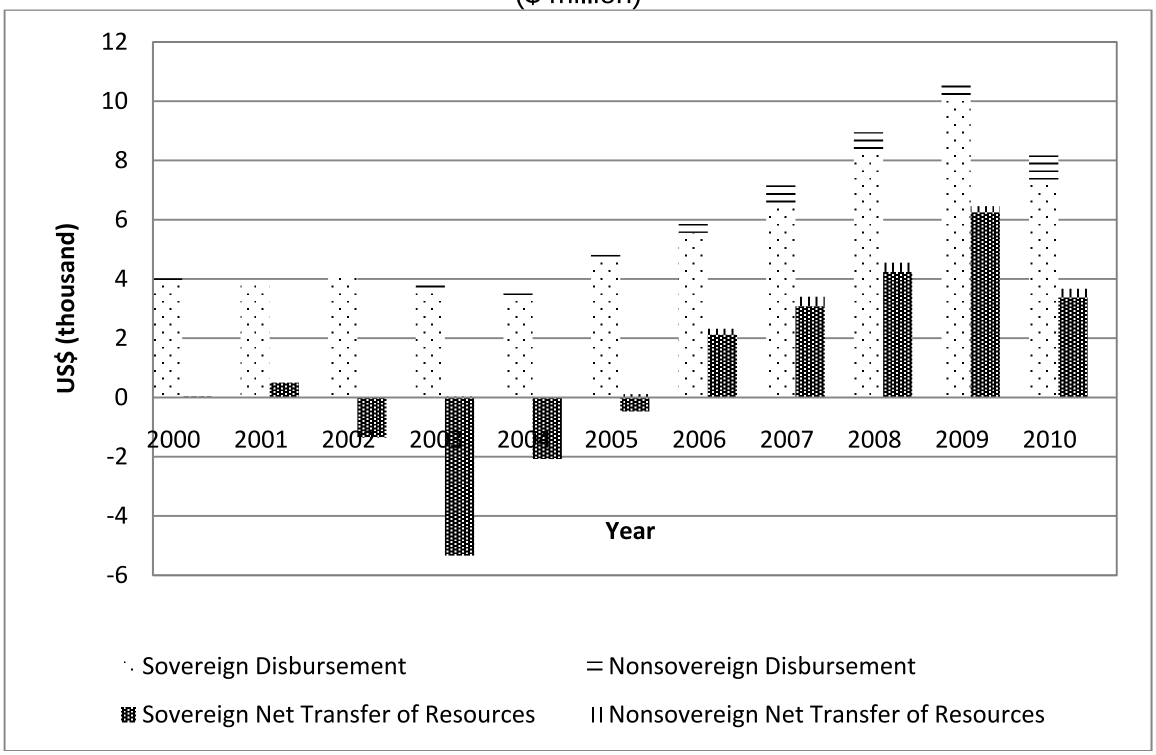
[1] ADB.2011. *Asian Development Outlook 2011.* Manila. pp. 249.
[2] ADB. 2009. *Taking the Helm: A Policy Brief on a Response to the Global Economic Crisis*. Manila. ADB. 2008. *Navigating the Global Storm: A Policy Brief on the Global Financial Crisis.* Manila
[3] ADB. 2009. *Technical Assistance Report: Pacific Economic Management*. Manila; and ADB. 2010. *Technical Assistance Report: Pacific Economic Management-Enhanced Economic Management (Sub project 2).* Manila.

Table 4: ADB Sovereign Assistance to Developing Member Countries in 2009 and 2010

Developing Member Country Grouping	Decline in GDP Growth Rate (%)	Average ADB Assistance 2007–2008 ($ million)	ADB Assistance 2009 ($ million)	Change in 2009 from 2007–2008 (%)	ADB Assistance 2010 ($ million)	Change in 2010 from 2007–2008 (%)
Severely Affected	> 50	2,589	3,637	40.5	2,868	10.7
Moderately Affected	20–50	4,353	5,820	33.7	5,149	18.2
Least Affected	< 20	2,532	4,434	75.1	3,446	36.1
Total		**9,474**	**13,892**	**46.6**	**11,462**	**21.0**

ADB = Asian Development Bank, GDP = gross domestic product.
Note: Assistance includes sovereign loans from ordinary capital resources and the Asian Development Fund, Asian Development Fund grants, and other grant sources.
Source: Staff estimates based on data from Central Operations Services Office and Controller's Department.

Figure 5: Sovereign and Nonsovereign Operations, Disbursements, and Net Resource Transfer, 2000-2010
($ million)



Source: Based on data provided by the Controller's Department.

Table 5: Total Resource Transfer to Borrowing Member Countries from 2008 to 2010

Disbursements and Growth from 2008 to 2010[a]
($ million)

Developing Member Country Grouping	2008	2009	Change in 2009 from 2008 (%)	2010	Change in 2010 from 2008 (%)	Total 2007–2008	Total 2009–2010	Change in 2009–2010 from 2007–2008 (%)
Severely Affected	3,106	3,464	12	1,630	(48)	4,776	5,094	6
Moderately Affected	3,689	4,606	25	4,133	12	6,961	8,739	26
Least Affected	2,095	2,532	21	2,223	6	4,231	4,755	12
Total	**8,890**	**10,602**	**19**	**7,985**	**(10)**	**15,968**	**18,588**	**16**

( ) = negative.
[a] Includes all loans and grants from ordinary capital resources, Asian Development Fund, and other Special Fund sources; excludes regional loans and grants.

Net Resource Transfer to Borrowing Member Countries from 2008 to 2010
($ million)

Developing Member Country Grouping	2008	2009	Change in 2009 from 2008 (%)	2010	Change in 2010 from 2008 (%)	Total 2007–2008	Total 2009–2010	Change in 2009–2010 from 2007–2008 (%)
Severely Affected	1,785	2,270	27.2	286	(84.0)	2,497	2,557	2.4
Moderately Affected	2,323	3,359	44.5	2,925	25.9	4,398	6,283	42.9
Least Affected	508	916	80.3	534	5.1	1,172	1,450	23.7
Total	**4,616**	**6,545**	**41.8**	**3,745**	**(18.9)**	**8,067**	**10,290**	**27.6**

( ) = negative.
Note: Net resource transfers for Asian Development Bank loans and grants from ordinary capital resources, the Asian Development Fund, and other fund sources. Net resource transfers to borrowing member countries are larger than total net resource transfers from ADB (Appendix 4 Table A 4.5) due to reflows from non-borrowing member countries.
Source: Controller's Department.

1. Trade Finance Program

49. TFP assistance is provided only to selected DMC banks after a thorough due diligence assessment of their financial strength and their fiduciary and governance standards. Based on due diligence assessments, exposure limits for trade finance are set individually. By the end of first-quarter 2010, the program had 102 issuing banks,[70] of which 85 were identified during the crisis period in 2009.[71] The programs also had 28 confirming banks.[72] While access to the TFP is open to all ADB member countries and their banks, there seems to be a distinct preference in favor of banks from smaller countries of groups A and B, and smaller banks in larger countries like Indonesia.[73] Of the 16 DMCs with approved TFP facilities, only 10 used the program until

[70] So called because these local banks issue guarantees on the payment obligations of enterprises in developing countries.
[71] From 16 countries: Afghanistan, Armenia, Azerbaijan, Bangladesh, Bhutan, Cambodia, Georgia, Indonesia, Mongolia, Nepal, Pakistan, Philippines, Sri Lanka, Tajikistan, Uzbekistan, and Viet Nam.
[72] So-called because they confirm the instruments issued by the issuing banks in DMCs and guarantee their payment.
[73] ADB follows a three-tier country classification system (viz., groups A, B, and C) to differentiate among groups in regard to ADF eligibility. Group A DMCs are "fully eligible," Group B DMCs are eligible for "limited amounts in particular circumstances," and Group C DMCs are ineligible for ADF resources. Group A countries are thus

2010, because the following countries were added in late 2010 or 2011: Bhutan, Tajikistan, Armenia, and Georgia.

50. In 2009, ADB provided $633 in trade finance to DMCs—and this assistance mobilized approximately three times as much in private sector cofinance, mostly to group A and B countries (Table 6). TFP assistance went to group A and B countries, which faced greater difficulties in accessing trade finance. This assistance supported $1.9 billion worth of trade. Almost two-thirds of the assistance went to Pakistan and Viet Nam, where ADB first carried out due diligence, possibly because they were on the list of countries for which international confirming banks had very little risk appetite.[74] In 2010, ADB provided $1.22 billion[75] under the TFP to support $2.8 billion worth of trade. Although there were other recipients of assistance, four countries (Bangladesh, Indonesia, Pakistan, and Viet Nam) received about 87% of the TFP in 2010.[76]

51. In product terms (Table 7), a significant part of the TFP was provided through the Risk Participation Agreement, under which ADB shares trade risk on a portfolio basis with international confirming banks. Under this window, ADB assumes up to 50% of the participating banks' trade risk in a transaction within the approved exposure limits for the institutions involved in the transaction. Currently, only six confirming banks are operating this window. Risk participation agreements accounted for 78% of TFP-supported trade, 88% of cofinancing, and 62% of TFP assistance provided during 2009 and 2010. Because of the risk sharing, this window mobilizes more cofinancing from the participating confirming banks than the other two windows of the TFP. In 2010, the bulk of TFP growth was in the Credit Guarantee product, under which the TFP works with 102 confirming banks, most of which have either no credit lines at all for group A and B countries or very limited lines. Unlike the Risk Participation Agreement, the Credit Guarantee can provide guarantees of up to 100%, which is important in order to dramatically increase trade and partnerships, especially in the most challenging markets, for which most confirming banks have no credit lines. Under a Credit Guarantee, ADB issues guarantees to international confirming banks on the instruments issued by selected local banks in the DMCs. On the strength of ADB's guarantees, the confirming banks are able to take more trade risk in a number of countries above their normal country limits, or offer credit for longer tenors. Under this window, ADB provided $676 million (36% of TFP assistance) during 2009 and 2010.

52. The average tenor under the TFP was about 114 days for the period 2008–2010. It was 93 days in 2009 and 127 days in 2010. TFP pricing is market determined to ensure (i) there is no crowding-out of the private sector, (ii) competitiveness, and (iii) optimal risk-taking by the confirming banks to avoid paying market-determined TFP fees. In 2010, the price of trade credit varied significantly across countries—it was 1.19% for Indonesia and 3.5% for Bangladesh. The average price of trade credit rose from 2.89% in 2008 to 3.34% in 2009 and declined to 2.74%

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characterized as "ADF-only" countries. Group B countries with ADF access are characterized as "ADF-OCR blend" countries, while Group C countries are "OCR-only" countries.

[74] According to a survey done in 2009 by IMF and the Bankers' Association for Finance and Trade, confirming banks reported tighter guidelines for a number of countries, including Argentina, the Baltic countries, Bolivia, Ecuador, Hungary, Iceland, Republic of Korea, Pakistan, Russia, Turkey, Ukraine, United Arab Emirates, Venezuela, and Viet Nam. Confirming banks informed the independent evaluation missions that their risk appetite is still low for Bangladesh. For a succinct summary of the survey findings see T. Dorsey. (2009). Trade Finance Stumbles. *Finance and Development.* (March 2009). pp. 18–19.

[75] This appears to be in excess of the approved TFP limit of $1 billion, because the average tenor is currently about 4 months. With this tenor, ADB could theoretically roll over the transaction amount three times a year and provide up to $3 billion within its TFP exposure limit.

[76] Pakistan (34%), Viet Nam (30%), Indonesia (13%), and Bangladesh (10%).

in 2010. The annual averages mask the significant volatility in costs in early 2009. In May 2009, the average price charged by ADB reached 4.7%, which was more than twice the average price in December 2010.

53. The impact of the crisis on trade finance was severe in some group A and B countries. A survey of major banks in advanced as well as emerging market economies, carried out by IMF and the Bankers' Association for Finance and Trade, found that credit guidelines for several countries had been tightened. Over 90% of banks in developed countries and 70% in emerging market economies indicated that the crisis had changed their lending criteria with respect to specific counterparty banks and to the trade credit. The prices of various types of letters of credit, a common instrument used to guarantee importers, had increased during the crisis. The increase affected the prices of both short- and medium-term lending facilities (footnote 74). The availability of trade credit tightened due to higher lending costs, increased risk premiums, rising liquidity pressure, scarcity of capital, increased capital adequacy requirements, and heightened risk aversion of trade finance providers and banks regarding counterparty and country risks. Owing to deleveraging of banks and other financial institutions, the secondary market for short-term credit also shrank sharply. The increased risk sensitivity of Basel II regulations in a recessionary environment might have put further pressure on banks to put restrictions on trade finance.[77]

54. The TFP aimed to provide greater access to SMEs, which tend to have a low credit standing and greater vulnerability to a sharp and prolonged decline in demand. During 2009 and 2010, the TFP supported 540 SMEs, constituting 44% of its portfolio. This approach is likely to enhance the program's development effectiveness, as evidence shows that lack of access to credit will have a particularly adverse impact on SMEs.

55. The TFP also has an emphasis on regional trade. During 2009 and 2010, intraregional trade accounted for 60% of the TFP portfolio, and trade between DMCs accounted for 52% of the portfolio. A significant part (about 95% in 2010) of trade financing supported the import of commodities essential for production and basic consumption—oil, gas, and energy-related products (39%); nonenergy raw materials (26%); capital goods, and technology and communication equipment (20%); and agriculture (mainly food) and related products (10%).

56. The demand for trade finance is high, particularly in group A and B countries. All issuing banks and confirming banks informed the independent evaluation missions that their credit limits with ADB were inadequate and, in most cases, lower than those with the International Finance Corporation. To manage the unmet demand and its own exposure, ADB has entered into risk distribution agreements with the Netherlands Development Finance Company and the export credit agency of Australia. The objective of the agreements is to pool risk and enhance access to trade finance. These arrangements were not fully operational during the evaluation period. In 2010, Bangladesh received about $7 million in assistance under the agreement with the Netherlands Development Finance Company.

[77] International Chamber of Commerce. 2010. *Rethinking Global Finance 2010*. Paris. p. 21.

Table 6: Trade Finance Program Assistance to Developing Member Countries, 2009 and 2010
($ million)

Developing Member Country Grouping[a]	TFP Exposure	Cofinancing	Transactions Supported
2010			
Group A	17.3	7.2	24.5
Group B	1,016.9	1,247.5	2,264.4
Group C	189.1	287.2	476.2
Subtotal	1,223.3	1,541.9	2,765.2
2009			
Group A	4.5	7.0	11.4
Group B	628.7	1,256.1	1,884.8
Group C	0.0	0.0	0.0
Subtotal	633.1	1,263.1	1,896.2
Total 2009 and 2010			
Group A	21.7	14.2	35.9
Group B	1,645.6	2503.7	4,149.2
Group C	189.1	287.2	476.2
TOTAL	**1,856.4**	**2,805.0**	**4,661.4**

TFP = Trade Finance Program.
[a] For country grouping see footnote 73.
Source: Staff estimates based on information provided by the Private Sector Operations Department.

Table 7: ADB Trade Finance Program Assistance by Products, 2008-2010
($ million)

Item	2008	2009	2010
Credit Guarantee			
TFP assistance	12.8	55.9	620.3
Cofinancing	8.7	13.6	312.8
Subtotal	21.5	69.5	933.1
Risk Participation Agreement			
TFP assistance	154.6	563.6	585.9
Cofinancing	254.0	1,250.4	1,224.1
Subtotal	408.6	1,814.0	1,810.0
Revolving Credit Facility			
TFP assistance	23.0	13.6	17.0
Cofinancing		(0.9)	5.0
Subtotal		12.7	22.0
Total			
TFP assistance	**190.4**	**633.1**	**1,223.3**
Cofinancing	**270.0**	**1,263.1**	**1,541.9**
Total	**460.4**	**1,896.2**	**2,765.2**

TFP = Trade Finance Program, ( )= negative.
Source: Staff estimates based on information provided by the Private Sector Operations Department.

V. ASSESSMENT OF ADB'S SUPPORT

A. Introduction

57. This chapter assesses in broad terms the relevance, responsiveness and initial results of ADB's support to DMCs to help them fight crisis-induced challenges. It assesses in depth ADB's assistance to the six case study countries (Bangladesh, Indonesia, Kazakhstan, Philippines, Tajikistan, and Viet Nam).[78] Moreover, the two crisis-specific instruments—the CSF and the TFP—played a major role in delivering crisis assistance to the case study DMCs (except Tajikistan). To the extent practical, their program outputs and initial outcomes were also reviewed.

58. The assessment is conditioned by three factors: First, the global and national context that confronted the DMC governments during the last quarter of 2008 and the first two quarters of 2009 was drastically different from what evaluators can perceive at present. The evaluation report of the European Bank for Reconstruction and Development's crisis response succinctly summarized the situation in global markets as follows: "…by October 2008, global markets and the leaders of industrialized nations had been seized by the fear of the unknown." All the extraordinary measures put in place by the G7 nations since 2007 had not succeeded in restoring worldwide loss of confidence in the banks, and the US Federal Reserve chairman of great standing for 20 years admitted that he had made mistakes and that "…he was in a state of shocked disbelief".[79] Therefore, the level of uncertainty facing policy makers in DMCs during those highly unsettled times is nowhere near to what evaluators can perceive today. Second, since the economies of several DMCs suffered less GDP loss from the crisis than feared and also resumed growth earlier than had seemed likely, many of the decisions made at that time may seem excessively cautionary, unnecessary, or perhaps even wasteful with the benefit of hindsight. Third, delivery of outcomes and the associated impact of a number of programs supported by crisis assistance are yet to be complete. The available data are insufficient to draw firm conclusions at this time. Evaluation of results is thus preliminary and relies largely on the accomplishments of program outputs and initial outcomes.

59. Overall, ADB's financial and nonfinancial assistance during the crisis was important and pertinent to supporting DMCs' crisis-response programs. In most DMCs, ADB has had the benefit of frequent and close interaction with national authorities, thanks to its operational presence and associated consultations on country partnerships and related policy issues. In some cases, ADB also had ongoing assistance programs for reforms and capacity development in the finance sector and public financial management. These enabled ADB to gain better understanding of crisis-related needs and constraints of DMCs and enhance the relevance of its

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[78] ADB. 2009. *Report and Recommendation of the President to the Board of Directors (RRP) on the Proposed Program Loans to the People's Republic of Bangladesh for the Public Expenditure Support Facility Program and Countercyclical Support Facility Support Program*. Manila; ADB. 2009. *RRP on a Proposed Loan to the Republic of the Indonesia: Countercyclical Support.* Manila; ADB. 2009. *RRP on a Proposed Loan to the Republic of Indonesia for Public Expenditure Support Facility Program.* Manila; ADB. 2009. *RRP on the Proposed Kazakhstan Countercyclical Support Loan.* Manila; ADB. 2009. *RRP on the Proposed Loan to the Republic of the Philippines for Countercyclical Support.* Manila; ADB. 2009. *RRP on the Proposed Loan for Subprogram 3 and Technical Assistance Grant for the Development Policy Support Program (Philippines)*. Manila; ADB. 2009. *RRP on the Proposed Asian Development Fund Grant to the Republic of Tajikistan for the Crisis Recovery Support Program. Manila;* ADB. 2009. *RRP on the Proposed Loan to the Socialist Republic of Viet Nam: Countercyclical Support.* Manila; and ADB. 2009. *RRP on the Proposed Loan for Subprogram 2 to Viet Nam for the Support for the Implementation of the Poverty Reduction Program V.* Manila.

[79] EBRD. 2010. *The EBRD's Response to the 2008–2009 Crisis*. London. November. p. 10.

assistance. Relevance was generally high where ADB could use crisis-specific instruments (CSF, TFP) for timely delivery of assistance.

60. Where assistance was provided through traditional project and program instruments, relevance was somewhat circumscribed by the fact that most of these operations had been designed before the crisis began to affect Asia. ADB did attempt to introduce crisis-relevant modifications in some program loans and, where appropriate, also developed new programs in association with the ongoing ones to improve their crisis relevance (as in Bangladesh, Indonesia, and Philippines). Moreover, assistance in the form of program loans, whether crisis relevant or not, delivered the first tranche soon after approval and enhanced governments' budgetary resources, which was deemed very valuable during the crisis response. However, the project modality through which about 55% of total assistance was delivered during that time had limited relevance, since only negligible changes could be made in their design to enhance responsiveness to the crisis. Moreover, project loans are subject to slow disbursements and long gestation in delivering outputs, both of which render them unsuitable to meet the urgency dictated by a crisis.

61. ADB had clearly recognized since late 2008 and early 2009 that it would need to considerably expand operations in 2009, but found itself unable to do so for lack of financial latitude. After its shareholders approved an increase in its capital in May 2009, ADB stepped up the pace of operations in the remaining months of 2009. Nearly 80% of the number and 70% of the amount of assistance were approved in the second half of 2009, by which time the crisis had already begun to ebb. Delayed delivery, although mostly beyond ADB's control, did render ADB assistance less responsive in some cases. During the crisis, when time was of the essence, even a few months could add or subtract substantial value from the assistance provided. The critical importance of timely delivery of assistance during a crisis was not lost on ADB. In fact, to ensure that the delivery of the crisis assistance was not delayed, ADB waived the processes and requirements essential and appropriate during normal times, and simplified and compressed the processing of crisis-related CSF loans. ADB attached no reform conditions to the CSF assistance, as it was meant to be fast disbursing.

62. Perhaps some improvements in timing could have been gained by processing a greater number of crisis operations in the first half of 2009 in anticipation of approval of the fifth general capital increase. This would have helped provide more crisis-related support in the second quarter, rather than in the third and fourth quarters of 2009. Thus, advance action to bring forward the processing of several crisis operations in the early part of 2009 would have been valuable in improving the timeliness and responsiveness of ADB assistance to DMCs' crisis response.

63. The evaluation observes that a closer coordination among operations departments, and between them and the knowledge departments, would have helped improve the timeliness of ADB's assistance to some extent. For instance, operations departments could have initiated preparation and processing of crisis-assistance proposals from early 2009 based on the assessment of DMCs' crisis-related needs as presented to ADB Management in December 2009 (footnote 66). Collaboration and sharing among operations departments would have enabled better deployment of staff expertise in macroeconomic and finance matters, which is scattered across individual departments. Such expertise was in heavy demand for processing CSF and other program loans. An uneven workload among staff caused by the asymmetrical regional impact of the crisis on ADB's operations could have been minimized. A coordination arrangement among the heads of the operations departments, Economics and Research Department, OREI, and Regional and Sustainable Development Department, with responsibility

to coordinate and monitor the delivery of ADB's crisis assistance, would have generated better synergy and more timely results**.**

64. The allocation pattern of ADB assistance was uneven, resulting in the most severely affected DMCs receiving relatively little attention, or less than was needed, given the extent of the crisis-induced damage to their economies. Imbalance of assistance also led to an undesirable outcome in terms of negative resource transfer during the crisis.

B. Assessment of ADB's Support in Six Case Study Countries

65. This section provides an assessment of ADB's loans to five DMCs with focus on CSF operations regarding relevance, responsiveness, and the results emerging at this stage. In addition, assistance to Tajikistan—a nonrecipient of CSF loans—is also assessed, since ADB extended large grant assistance to it. The assessment is based on the information and data available in ADB and gathered through the case studies for each of these DMCs.

66. Five DMCs (Bangladesh, Indonesia, Kazakhstan, Philippines, and Viet Nam) received ADB assistance of $500 million each under the CSF modality. Tajikistan received a $40 million ADF grant to support its fiscal stimulus package. Since a fiscal-expansion-based stimulus program was at the heart of the global response to the crisis, all recipient governments had initiated stimulus programs using up available fiscal space, and needed additional support from development partners and other sources. Against the broader context, addition to budgetary resources through CSF loans is considered necessary and important to DMCs in financing increased expenditure under their stimulus plans. At a more disaggregated DMC level, however, the contribution of CSF loans varied in line with DMC-specific characteristics of economic and fiscal conditions, implementation performance, and the timeliness of delivery of ADB assistance.

1. Bangladesh

67. The CSF was *relevant* at the time of its provision to the government. At the beginning of 2009, when the impact of the global economic crisis began to unfold, Bangladesh exports decelerated sharply, particularly in commodities that had strong backward links to employment-intensive sectors—agriculture, fisheries, leather goods, and garments. The future was uncertain, particularly because exports in some larger countries in Asia also began to decelerate. While remittances, which are important for maintaining the external balance and domestic consumption, did not decline, the outflow of labor began to taper off. The government was very concerned about the likely impact of these trends and approached donors such as ADB for assistance to support its stimulus package, which was announced in April 2009, 2 months ahead of the regular budget.

68. ADB assessed the needs of the country taking into account the uncertain circumstances at the time. The assessment was in line with the eligibility criteria for the CSF. There were early indications of threat from the global economic crisis on exports and employment of overseas workers. The government had announced a stimulus package that focused on mitigating the adverse impact of the crisis on exporting industries to plug the crisis transmission route. The government also announced a significant increase in social safety-net expenditure and investment in public–private partnerships in infrastructure. The government also had a track record of pursuing prudent macroeconomic policies. There was a fear of revenue shortfall and stress on the external balance. The program also assessed the poverty impact of both the CSF

and the PESF, which were packaged together.[80] The CSF as an instrument was designed for middle-income countries. By packaging the loan with the PESF, ADB ensured that the CSF was embedded well in the government's medium-term fiscal policy. The CSF was also well aligned with the government's poverty reduction strategy.

69. The evaluation rates the CSF *less responsive* to the needs of Bangladesh. This relates more to the unsuitability of the CSF as an instrument to blend countries like Bangladesh than to the design of the program or its implementation. The government appreciated ADB's timely response in providing the assistance and the quality of policy support received. In particular, the prompt response and delivery of services and products by the resident mission was cited. Donor coordination is strong in Bangladesh and has been institutionalized. The CSF program was discussed with IMF, the World Bank, and other agencies. IMF provided an assessment of the macroeconomic situation. The World Bank, however, had a different view than ADB and the government on the need for CSF support. The government held that the CSF was a good instrument but that it was costly, and the repayment terms stiff and inflexible, making the instrument unaffordable to low-income countries. To be more responsive, the CSF should have more flexibility to better fit the diverse needs and circumstances of crisis-affected DMCs.

70. Bangladesh approached ADB for CSF support on fears that the worst might happen on the external front, even though the country had a current account surplus and adequate reserves. An analysis of the budgets and macroeconomic development during the second half of 2009 showed that there was no compelling need to use high-cost external funds for budget support. In fiscal 2009, government borrowings exceeded the fiscal deficit in large part due to higher accrual of small savings. There was adequate liquidity in the country. What the government needed was an instrument that provided insurance against sudden downturns. Bangladesh would have benefited more from ADB assistance if the CSF had offered flexibility in the timing and magnitude of disbursements. The entire loan amount of $500 million was disbursed in one tranche in November 2009. The budget was in surplus (equivalent to 0.66% of GDP) as of end October 2009 (paragraph 8, Appendix 3). This, along with the IMF's disbursements, added over $1 billion to external reserves at a time when liquidity in the economy was high.[81] Another major drawback of the instrument is its compressed repayment terms. Although debt sustainability is not a problem for Bangladesh, large short-tenor loans like the CSF could cause difficulties, as they require repayment within 2 years in hefty biannual installments. Such lump-sum payments could complicate the exchange rate management when conditions are not favorable. They could also be unaffordable for the government, as it would need to divert large amount of resources form other uses to repay the loan. This risk suggests that it would be desirable to offer a longer tenor (perhaps 8 years with a 3-year grace period) to blend countries. Such an option could have made the CSF more concessional to them.

71. It is difficult to assess results of a budget-support loan in the absence of an earmarked allocation to specific programs. This evaluation assessed the program based on its primary objective that "...[the] loan will directly contribute to implementing the expanded SSNPs [social safety-net programs] to cushion the impact of the global economic crisis on the poor and

[80] ADB. 2009. *RRP to the Board of Directors on Proposed Program Loans to the People's Republic of Bangladesh for the Public Expenditure Support Facility Program and Countercyclical Support Facility Support Program*. Manila.

[81] Broad money growth (M_2) reached 23.5% in September 2009, from 18.9% in July 2009, and reached 21% in November 2009. Liquidity continued to grow close to 19% during the rest of the fiscal year 2009/10 while growth of credit to the private sector declined sharply from 25% in the previous year to 15%.

vulnerable."[82] The loan did define a large number of specific elements of the social safety-net programs as intended CSF beneficiaries. However, most of the executing ministries of these programs were not aware of this fact, since there was no earmarked allocation from the CSF to these programs. Based on a preliminary assessment of the loan's primary objective, this evaluation assesses the CSF's impact on results to be *satisfactory*. The evaluation did not use the CSF's design and monitoring framework because it was too ambitious and had many elements as program outputs that were not directly related to the primary objective of the loan, which was to protect the social safety-net expenditure. If the unrelated outputs included in the design and monitoring framework—assistance to exporters, higher investment in public–private partnerships, and a higher level of annual development expenditure—were to be taken into account, the results of the loan would fall short of its targets. This would be so because, except in the case of the social safety-net program, actual spending on other items fell short of what was budgeted by significant margins, resulting in a lower fiscal deficit (as a percentage of GDP) in fiscal year 2010 than in fiscal year 2009 (Appendix 3, Table A3.1).

2. Indonesia

72. ADB provided two large crisis-related loans[83] to Indonesia: a PESF loan and a CSF loan. ADB's crisis-response assistance was *relevant, less responsive, and satisfactory* in achieving its initial results for the reasons indicated below.[84]

73. The crisis had affected Indonesia in several ways. During the last quarter of 2008 (soon after the collapse of Lehman Brothers), Indonesia experienced a high degree of market instability, capital flight of $10 billion, currency depreciation of nearly 40%, and escalation of the risk premium on foreign borrowing to as much as 1200 basis points. Exports and GDP growth started to decline, as did government revenues. Fiscal deficit was modest (–1.8%) but faced growing pressure from the planned fiscal stimulus of about 1.4% of GDP. Indonesia urgently needed to arrest the decline in market confidence in its economy, besides budgetary support to finance its stimulus plan.

74. A multidonor assistance package of $5 billion as a contingent loan developed in late 2008 aimed at sending a strong signal of confidence in Indonesia's economy by its major development partners (ADB, Australia, Japan, and the World Bank). ADB made a commitment to provide a $1 billion loan under the package. While the package was under preparation and in trade news since late 2008, it was formally announced in February 2009. Shortly after the announcement, a loan of $2 billion under the package became available from the World Bank (March 2009), and one of $1 billion from Japan (April 2009). ADB approved the PESF loan of $1 billion in June 2009.[85] Indonesia and others consider the announcement of the multidonor package in February 2009 to have significantly contributed to rebuilding confidence in the economy and calming the markets steadily over the ensuing months.

75. The announcement of the package and subsequent provision of assistance by the World Bank and Japan was followed by a decline in the sovereign bond spread over the US treasuries

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[82] ADB. 2009. *RRP to the Board of Directors on Proposed Program Loans to the People's Republic of Bangladesh for the Public Expenditure Support Facility Program and Countercyclical Support Facility Support Program*. Manila. p. 23.

[83] ADB. 2009. *RRP to the Board of Directors on a Proposed Loan to the Republic of Indonesia: Countercyclical Support.* Manila; ADB. 2009. *RRP to the Board of Directors on a Proposed Loan to the Republic of Indonesia for Public Expenditure Support Facility Program.* Manila.

[84] ADB also provided another crisis-related loan: Rural Infrastructure Support Project II. However, it had disbursed only about 10% of loan amount by the end of 2010. As such, its relevance to the crisis became questionable.

[85] The loan was cancelled in December 2010 without disbursement.

(Figure 1). The spread dropped from 1200 basis points in late 2008 to 800 basis points in March, and to 300 basis points by June 2009. Moreover, the package helped Indonesia regain access to external finance, and it was able to sell sovereign bonds worth $3 billion in March 2009 and $650 million in April 2009.

76. ADB's participation in the multidonor package was very pertinent and timely for Indonesia's anticrisis program. However, ADB's inability to provide the PESF soon after the announcement somewhat diluted its responsiveness. Several market developments had already bypassed the PESF by the time it became available to Indonesia in June 2009. This is because the trend reversal from high market volatility (October–November 2008) toward eventual normalcy during a crisis is a dynamic process of changing perceptions driven by the relative weights of positive market signals vs. negative ones. Faster and larger accumulation of positive signals hastens the pace of return of market confidence and movement toward normalcy. In this process, time is of the essence, and the availability of funds is far more valuable earlier than later. The PESF, which is akin to an emergency operation, had been processed using regular program lending modality in the absence of a suitable instrument. Delays of 1 or 2 months can add or subtract substantial value in such volatile circumstances. Therefore, the relevance and responsiveness of the PESF toward crisis mitigation would have been far greater if it had become available before June 2009.

77. The CSF was developed in close consultation and coordination with the government and the development partners. Its design benefited from the continuing policy dialogue that ADB maintained with the government and other development partners during its ongoing Development Policy Support Program (DPSP) and the preparation of the multi-donor assistance package developed in early 2009.[86] The CSF was intended to provide budgetary support to help Indonesia finance its stimulus plan, which incurred most expenditures in 2009. The CSF aimed to support the scaling-up of social assistance programs, infrastructure investments designed to improve the welfare of selected social sector groups (e.g., students, vendors, low-income families, and public servants), and programs to boost competitiveness in agriculture and the traditional distribution sector.

78. A decline in exports and commodity prices had affected government revenues while it needed to launch an expansionary expenditure to stimulate the economy. A growing financing gap was projected for 2009 and 2010. The CSF was intended to help bridge the gap and assist the government in implementing the stimulus plan, and particularly to protect its social and pro-poor components. Thus, the provision of the CSF loan to support Indonesia's stimulus plan was relevant. However, the relevance of the CSF loan is considered to have been diluted in October 2009, by which time the anticipated fiscal gap had become much less threatening. The government had front-loaded its borrowing in the first half of 2009, including from international markets, when costs were high. This is not to suggest that the budgetary support provided by the CSF was no longer needed, but to underline that earlier delivery, say in June or July 2009, would have ensured far greater relevance and responsiveness to the government's needs. Because of cash management considerations, the government sought disbursement of the CSF in 2010. Consequently, in 2009, there was also a negative net transfer of $272 million from Indonesia to ADB, which would not have happened if the CSF had been disbursed in 2009.

79. The contribution of the CSF loan to fulfilling the objectives of the government's crisis response becomes less clear because the loan was disbursed only in March 2010, after most of

[86] ADB. 2008. *RRP to the Board of Directors on a Proposed Loan to the Republic of Indonesia for the Fourth Development Policy Support Program.* Manila (Loan 2488-INO).

the expenditure for social and pro-poor schemes supported under the CSF had already been incurred (in 2009). By March 2010, the government also began unwinding its stimulus package on the expenditure side. A major component (79%) of the stimulus package was tax incentives (mainly for direct taxes), the impact of which would be difficult to assess at this time because of difficulties in disentangling the tax-induced changes in private consumption and corporate investments from the overall changes. Realization of results would depend on timely implementation of tax measures, and on consumers and corporations spending tax-induced additional incomes and profits. Tax reform measures were implemented as planned.[87] The tax cuts are not countercyclical in nature but permanent measures aimed at enhancing compliance through better tax administration, thereby enhancing the tax-to-GDP ratio. Notwithstanding the delayed response from ADB, the government's stimulus package yielded satisfactory results, as evident from Indonesia's recovery. By participating in the multi-donor effort to assist the government, and announcing its contingent loan assistance in early 2009, ADB contributed to the rebuilding of market confidence and the subsequent economic recovery. Given the low level of fiscal deficits, the stimulus in Indonesia is likely sustainable. In particular, the expenditure measures under the fiscal stimulus package were temporary and were being withdrawn from the beginning of 2010.

3. Kazakhstan

80. This evaluation found ADB's support to Kazakhstan's crisis response *relevant and responsive.* The preliminary assessment of program outputs and initial outcomes suggests *satisfactory* achievement of intended initial results.

81. Kazakhstan was the first among DMCs to be affected by the crisis, and probably the only one to seriously suffer from the first-round effects of the global economic crisis. Due to increases in the volume and price of its exports of oil and other minerals, Kazakhstan's economy had grown at 10% annually during 2001–2006, attracting large capital inflows into its banking and property sectors. The country's external liabilities increased from 68% of GDP in 2001 to 95% of GDP in 2007. A large proportion of external funds went to the banking sector, which led to its liabilities to nonresidents escalating by 10 times while total sector assets grew by only four times. The banking sector thus became too dependent on foreign funds. Inadequate sterilization of foreign funds, including the trade surplus, led to excess liquidity in the system. Banks undertook rapid credit expansion, which induced economic growth but also fueled inflation, and contributed to building asset price bubbles (property). Thus, when the flow of external funds to banks abruptly shrank in the second half of 2007, banks were severely strapped for funds, pushing weaker ones toward insolvency. Banks had to resort to deep credit contraction, putting the property and industrial sectors into severe difficulty, which in turn affected the economy. To stop these events turning into a full-fledged banking crisis, the government initiated an anti-crisis plan (ACP) in November 2007. The ACP aimed to rescue and recapitalize several banks, and included measures to support the construction industry and SMEs.

82. The slowdown in credit growth affected GDP growth. GDP growth dropped from 9% in the fourth quarter (Q4) of 2006 to 5% in Q4 2007. GDP growth improved somewhat in Q1 and Q2 2008, but soon turned negative as the impact of falling commodity prices and a collapse of export demand began to be factored in. To counter the negative growth and avoid a rise in

[87] Tax amendments have been implemented in stages since January 2009 and as part of the stimulus packages. The corporate income tax rate was cut in 2009 from 30% to 28%, with a 5% discount for listed companies. Personal income tax was reduced in 2009 from 35% to 30%. In 2010, the corporate income tax was further reduced to 25%, with a 5% discount for listed companies.

unemployment, the government launched a second anti-crisis program (ACP2) in November 2008, to be implemented during 2009–2010 at an estimated cost of more than $10 billion. In March 2009, the government introduced an employment generation program (EGP) at a cost of about $1.3 billion to create jobs for the unemployed and avoid escalation in joblessness and poverty. ADB supported this plan through the CSF.[88]

83. While ACP1 and ACP2 were critical to reversing the impact of the crisis and reviving economic growth, the government faced serious financing problems. Economic slowdown and reduced tax revenues resulting from tax concessions offered under the ACPs, and lack of access to external borrowing at reasonable costs left the government with few options. It transferred $10 billion from the National Fund of the Republic of Kazakhstan to fund much of the ACP expenditure. Furthermore, the overall budget deficit for 2009 was estimated at 3.4% of GDP, which had to be funded to be able to implement high-priority expenditures such as the EGP.

84. The provision of the CSF loan as a budgetary support by ADB is considered *relevant* in the circumstances. The loan is also considered *responsive* and timely. It was provided during the year when government revenues were declining sharply, and the government needed budgetary support to be available quickly. The absence of conditionality and single-tranche disbursement of the CSF provided flexibility in deploying funds on a range of essential and important budget expenditures, including the EGP. The CSF loan was a low-cost alternative to borrowing from international capital markets. The loan was expeditiously processed and disbursed within about 2 months, which was greatly appreciated by Kazakh officials.

85. The expected output of the CSF loan was described in the RRP as "the full-fledged implementation of the ACP and the employment generation program." This is considered to have been *satisfactorily* achieved—partly in 2009, but substantially by early 2010. (By February 2010, 93% of ACP and EGP expenditure had been completed). The targets set under EGP have been achieved fully in the components of public works and staff retraining. In the case of creating jobs for the socially vulnerable and internships, the achievement was about 140% of the target.[89] Fiscal stimulus in Kazakhstan is temporary in nature and sustainable, given the historically low fiscal deficits and strong institutional arrangements to manage volatility in oil revenues.

4. Philippines

86. ADB provided two crisis-related loans to the Philippines: a DPSP loan and a CSF loan.[90] The DPSP was the third operation in a three-cluster program, the first of which ADB provided in 2007. The cluster program supported a broad policy agenda focused on fiscal and macroeconomic stability; governance in public financial management; investment climate; and enhancement of human capital and social inclusion. Given its objective of continuing the reform process pursued under the program since 2007, the DPSP had limited flexibility to directly address the requirements of the ongoing crisis. It did, however, provide support in indirect manner such as: the funds disbursed under it did add to the government's resource pool during

[88] ADB. 2009. *Report and Recommendation of the President on the Proposed Kazakhstan Countercyclical Support Loan.* Manila. (RRP).
[89] For 2009 data, sources are from ADB. 2010. *Project Completion Report: Republic of Kazakhstan: Kazakhstan Countercyclical Support Loan*. Manila. For 2010 data, Ministry of Labor and Social Protection (data provided to the independent evaluation mission as of 5 January 2011).
[90] ADB. 2009. *Proposed Loan to the Republic of the Philippines for Countercyclical Support.* Manila; ADB. 2009. *Report and Recommendation of the President on the Proposed Loan for Subprogram 3 and Technical Assistance Grant Development Policy Support Program (Philippines)*. Manila.

the crisis; and the approval of the DPSP loan in the midst of the crisis was seen as a validation of the government's adherence to fiscal and governance reforms, and hence a "seal of good housekeeping". This is considered to have contributed to enhancing market confidence in the Philippine economy.

87. The provision of a CSF loan of $500 million to the Philippines was *relevant* to meeting its anti-crisis needs. The country was among the most severely affected of the DMCs. In early 2009, it was confronted by the collapse of exports (–22% in Q4 2008 and –37% in Q1 2009); prospects of growing unemployment from returning overseas workers and an impaired export industry; and contraction in GDP growth. The Philippines also faced declining government revenues even as the availability of external finance was shrinking and its costs escalated excessively (spreads on its sovereign bonds had crossed the 500 basis point threshold in January 2009). In this situation the government initiated a program of fiscal expansion by boosting public expenditure. Additional expenditure was essential at that time to compensate for the large drop in export demand and arrest the decline in GDP growth through stimulation of domestic demand. Additional expenditure was also necessary to protect the poor and vulnerable population from the adverse impact of the crisis. The magnitude and timing of ADB assistance and the instruments used to plug the channels of transmission and mitigate the impact of the crisis are considered to be reasonable.

88. ADB assessed that the CSF assistance was consistent with long-term needs of the fiscal system, would not waste resources, and was viable from debt sustainability consideration.[91] This assessment was at variance with that of the World Bank, which focused on up-scaling its conditional cash transfer program support.[92]

89. The CSF loan was also *responsive* to the government's need for budgetary support. The ADB team maintained regular coordination with key donor partners on the two program loans (DPSP and CSF) and informed them of the progress, including disbursement and commitment planned by ADB. ADB has been an active participant of the Philippine Development Forum, which emphasizes harmonization and the integration of public financial management systems, justice policy, and mitigating the impact of the global financial crisis, and various other policy reforms.[93] Given declining revenues, and shrinking availability of external finance, the government faced a financing gap in the implementation of its fiscal expansion plan. A proposed increase in expenditure amounting to about 2.3% of GDP was projected to result in a fiscal deficit of 3.2% of GDP in 2009, sharply up from less than 1% in 2008. By providing budgetary support through the CSF loan, ADB helped the government execute its stimulus plan, and particularly enabled it to scale up social assistance and pro-poor programs, and safeguard the well-being of the poor and vulnerable population.

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[91] The DPSP cluster was also completed on 31 December 2009. Its program completion report published in December 2010 rated the cluster as *successful* (*relevant, effective, efficient, likely sustainable*).

[92] The Development Policy Loan (DPL) for $250 million was approved by the World Bank in December 2006 in parallel with ADB's DPSP and completed in March 2007. Its Implementation Completion and Results Report (30 September 2009) rated the outcomes as "*moderately unsatisfactory*" mainly due to partial or non-achievement in tax, public and private investment, road maintenance, sustainable power market, and governance result targets. The World Bank's Second Development Policy Loan (DPL2) planned for 2007 was postponed because the government fell short of its objectives, and the DPL series closed in December 2008. A new DPL (possibly $250 million) for 2009 supporting the objectives of fiscal revenues and transparency, complemented by measures to improve the Philippines' response to the crisis, did not materialize.

[93] For instance, ADB provided other public sector reform program loans such as (i) Local Government Financing and Budget Reform Program Cluster–Subprogram 1 (2387-PHI), approved on 13 December 2007 for $300 million; (ii) Local Government Financing and Budget Reform Program–Subprogram 2 (2584-PHI), approved on 26 November 2009 for $225 million; and (iii) Governance in Justice Sector Reform Program–Subprogram 1 (2489-PHI), approved on 16 December 2008 for $300 million.

90. The initial results of ADB assistance to the Philippines are considered *satisfactory*. The loans contributed to the implementation of the government's stimulus plan in a timely manner. The additionality of the loans was not only in the incremental budget resources provided, but also in stabilizing market perceptions in the Philippines and in sustaining prior policy reform efforts. The approval of such a large loan by ADB in the midst of the crisis provided a strong endorsement of the Philippine economy to financial markets, and helped improve the government's access to external finance on less onerous terms than would have been the case otherwise. The CSF loan also assisted the government in sizably scaling up expenditure on social assistance and pro-poor schemes. This contributed to potentially lowering the incidence of rural unemployment, and providing better protection to the poor and vulnerable from the impacts of the crisis. The emphasis of the CSF loan on scaling up social assistance and pro-poor expenditure also reinforced the relevant reform actions being pursued under ADB's DPSP cluster program. It is likely that in its absence perhaps less might have been spent on these schemes, and progress made in this regard under the two earlier cluster programs might have dissipated. The government's crisis response was limited to the P330 billion stimulus package, which had a 1-year time frame. Therefore, there was an implicit exit policy in the government's crisis response. The main threat to the sustainability of the CSF loan is the prolongation of the crisis, which ebbed with the recovery of the Philippines economy. If the government continues with the recent record of fiscal prudence, its stimulus package is unlikely to compromise fiscal sustainability.

5. Tajikistan

91. Tajikistan enjoyed strong economic growth at an average annual rate of more than 8.5% during 2000–2008. Exports of aluminum and cotton, and inflows of remittances from its nationals working abroad—mostly in Russia—were the main drivers of growth in recent years. Nationals working abroad were estimated to be around 1 million, nearly half the nation's workforce, and remitted about $2.7 billion (about 52% of GDP) to Tajikistan in 2008. The global economic crisis, however, severely affected Tajikistan's economy. Remittances declined sharply by 31%, while commodity exports shrank by 7% in 2009. At the same time, the government estimated that nearly 100,000 migrant workers returned home in early 2009, most of them after being laid off by their host economies. As a result of these crisis-induced developments, Tajikistan's economic growth plummeted to 3.4% in 2009—about half its pace in 2008.

92. The government acted swiftly and adopted urgent measures to revive the economy through tax and other incentives, and mitigate the social impact of the crisis by providing assistance to the unemployed (in particular migrant workers), and increasing social sector and protection spending.

93. The government, however, had limited fiscal space and it also faced a nearly 14% decline in revenue collection owing to a slowdown in the economy. It estimated that even after cutting capital and some other expenditures, implementation of its anti-crisis action plan (ACAP) would result in a fiscal deficit of about 5.5%, which needed to be financed. The external nature and transmission mechanisms of the crisis required the timely provision of budget support. The government had limited options to raise funds through borrowing on non-concessional terms. The debt sustainability analysis by the IMF and the World Bank in 2008 had concluded that the risk of debt distress in Tajikistan was high. The government therefore approached ADB and other development partners for quick-disbursing budgetary support.

94. ADB provided a $40 million grant from ADF to support Tajikistan in its crisis response. [94] The use of counterpart proceeds was earmarked for selected social sector and safety-net expenditures. ADB's assistance was *relevant* as it helped the government implement countercyclical fiscal policy and mitigate the impact of the crisis on social services and transfer payments. Nevertheless, the envisaged expansion of existing social assistance programs for vulnerable groups was less useful, because these programs were small and poorly targeted, and thus unlikely to be feasible vehicles for supporting the living standards of the poorest during a crisis, according to a World Bank study.[95] While the program grant modality was not the most suitable given the absence of an agreed reform program, there was no other modality or vehicle available to ADB for a timely delivery of an urgently needed assistance to an ADF-only DMC.[96] Therefore, actions that the government took in late 2008 and in the first half of 2009 in response to the global economic crisis (e.g., adopting the ACAP and revising the 2009 budget plan) and the action included in the IMF-supported Poverty Reduction and Growth Facility formed the policy basis for the program grant.[97]

95. ADB's support to Tajikistan for its anticrisis program is considered *responsive* given its timing and magnitude. The grant was processed within a few months and disbursed within a few weeks after approval. However, its processing efficiency was offset by the slow utilization of the counterpart funds. By the original closing date of 31 December 2009, 12% of the funds had still not been used, which required an extension of 3 months.

96. ADB's support to Tajikistan's crisis support was well coordinated with that of other donors, including support by the European Union, IMF, and World Bank. ADB's Tajikistan Resident Mission played an important role in both donor coordination and policy dialogue. As for results, Tajikistan's economic performance improved considerably in 2010. While the recovery was largely driven by improvements in the external environment, the government's response to the crisis, as well as the assistance from ADB and other development partners and the associated fiscal stimulus, were contributing factors. The very limited macroeconomic and fiscal space would have made it difficult to protect social expenditures without external support.

97. Nevertheless, the envisaged outputs and outcomes under ADB's program were only *partly achieved*. Although the ADB program grant helped the government augment its social spending from 7.3% of GDP in 2008 to 9% of GDP in 2009, which included an increase in social protection spending (mainly for pensions of former government employees) from 3.2% to 3.4% of GDP, [98] the provision of social assistance to vulnerable groups, and utility, food, and medicine expenditures in social sectors stayed below expectations. Only 93.1% of budgeted program-

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[94] ADB. 2009. *Report and Recommendation of the President on the Proposed Asian Development Fund Grant to the Republic of Tajikistan for the Crisis Recovery Support Program*. Manila

[95] M. Brownbridge and S. Canagarajah. 2009. How should Fiscal Policy respond to the Economic Crisis in the Low Income Commonwealth of Independent States? Some Pointers from Tajikistan*. World Bank Policy Research Working Paper No. 4970*. Washington DC: World Bank.

[96] ADB also provided a supplementary grant for the rehabilitation of the Dushanbe-Kyrgyz Border Road Project for $20 million in 2009, which enabled the ongoing work and expenditure on investment projects for power, road, and rural development to be continued during the crisis, despite cuts in capital expenditure in the 2009 budget.

[97] Apart from the crisis mitigation measures, the Poverty Reduction and Growth Facility and the extended credit facility that replaced it also support structural reform related to improvements in the governance of the National Bank of Tajikistan (NBT), financial sector regulation, cotton sector (debt) restructuring, power sector reforms, state-owned enterprise restructuring, and tax, financial, and debt management reforms. Crisis Recovery Support Program was linked to structural IMF conditionality on (i) amendments to banking and central bank legislation enhancing NBT autonomy and minimizing conflict of interest; and (ii) the implementation of recommendations resulting from a special audit of NBT.

[98] IMF. 2010. *Tajikistan: First and Second Review Under the Three-Year Arrangement Under the Extended Credit Facility*. Washington DC.

supported expenditure was executed. Actual expenditure on utilities and food in social sectors was less than planned, in part due to power shortages. The number of beneficiaries under the cash compensation program for school children from poor households declined for unclear reasons.[99] The number of beneficiaries under unemployment benefits decreased by 25% despite increasing unemployment levels. Also, despite the full implementation of employment programs for returned and unemployed migrants, the total number of beneficiaries increased only marginally in 2009 compared with 2008.[100]

98. The absolute and relative contributions of macroeconomic stabilization efforts and an increase in social spending toward mitigating the impact of the crisis on the poor are not clear. Although overall poverty declined slightly from 2007 to 2009, extreme poverty did not decrease, and some groups, such as households with heads who have low education levels and large families, saw a rise in poverty.[101]

99. Further, it is difficult to assess reliably the use of funds in the absence of adequate systems and procedures within government. It could not be independently verified whether the grant funds were indeed used in full for their intended purposes, although the overall social sector and protection expenditures substantially exceeded the grant amount. In this context, the non-processing of the originally proposed regional technical assistance from ADB is considered an opportunity lost. The regional technical assistance was intended to help Tajikistan and other Central Asian governments in monitoring the expenditures supported under ADB's anti-crisis assistance.

100. With the exception of the tax reductions, the crisis-response measures that the government adopted in the area of macroeconomic management were temporary by nature and did not affect fiscal sustainability. The government's structural reforms continue and no policy reversals have occurred so far. The provision of the ACAP grant did not involve any significant front-loading of the 2009–2010 ADF allocation to Tajikistan, nor did it replace the scheduled program or reduce ADF allocation for subsequent years, in particular planned infrastructure investments.[102]

6. Viet Nam

101. The impact of the crisis was immediate and pronounced for Viet Nam given its very high dependence on exports and foreign capital for sustaining high GDP growth.[103] A sharp decline in demand from G3 economies and shrinking access to external capital quickly translated into a

[99] One reason for this would be that the economy continued to grow in 2009 (albeit at a slower pace than in the previous several years) and the incidence of poverty (i.e., the number of poor households) decreased. Another possible explanation could be that school attendance of children from the lowest income groups declined during the crisis. Data on actual school attendance could not be obtained to confirm causality.

[100] Related ADB support was based on the assumption that many migrants would return home to and remain in Tajikistan. However, recent research based on an analysis of household survey results indicates that the stock of migrant workers from the country might have actually increased as a result of the crisis due to worsening economic conditions at home. More migrants appear to have left, albeit for shorter durations. While ADB's crisis support in Tajikistan is relevant and responsive, it only partly achieved its stated outputs and outcomes

[101] World Bank. 2010. *Information Brief on World Bank-Europe and Central Asia*: *Tajikistan Poverty Update 2007-2009.http://siteresources.worldbank.org/INTTAJIKISTAN/Resources/TJ_Poverty_Note_SummarySept2010Eng.pdf* available on www.worldbank.org.

[102] The ADF allocation for 2010–2012 is $252 million, nearly $84 million annually, which is about 35% higher than in the previous country partnership strategy period. Projects approved during 2010–2011 include grants for regional power transmission ($122 million) and road rehabilitation ($120 million).

[103] For instance, in 2008 exports constituted nearly 70% of GDP, and about 30% of investment was funded from foreign sources.

fall in export demand of 10% in the first quarter of 2009, compared with growth of 40% in the first three quarters of 2008. A drastic decline in foreign direct investment was also registered—foreign direct investment approvals fell by 75% in the first half of 2009. As a result, the economy began to slow and was projected to grow during the year at about 5% or less, compared with its average growth of 8.30% during 2005–2007. The government was concerned about the impact of lower growth on employment, as many workers were likely to be laid off and swell the ranks of the unemployed. In the absence of adequate and effective social safety nets, such a situation would not only affect the well-being of the poor and vulnerable population, but also social stability in the country.

102. The government initiated a stimulus plan in the amount of D145.6 trillion (about 8.7% of GDP) for implementation during 2009, to forestall such a development. The stimulus plan primarily aimed at accelerating GDP growth by expanding government investments, and supporting private businesses and investments through tax exemptions and interest subsidies, with moderate focus on expenditure on social welfare.

103. Provision by ADB of a CSF loan of $500 million to Viet Nam to help the government implement its stimulus plan was *relevant*.[104] The stimulus plan was urgently needed to reignite economic growth since a fast recovery in demand from the G3 economies was not likely. ADB assistance was coordinated with the support from other development partners, and anchored in a medium-term policy framework developed earlier with the government's Socio-Economic Development Plan 2006–2010. The CSF thus also reinforced the reforms being pursued under the non-crisis assistance provided earlier by ADB and other development partners. [105]

104. The government faced a large financing gap as revenues were falling on account of lower exports and declining prices of important export commodities (oil, coal) that generated a substantial share of revenues. The overall budget deficit was already high at about 6.5% in 2008 and, with the planned stimulus plan, was expected to exceed 10% in 2009. Owing to tightened availability and high costs of borrowing (the spread over its sovereign bonds was about 1000 basis points in January 2009, see Figure 1), the government had very few options to ensure financing for the urgently needed stimulus plan. In such a situation, approval of the CSF loan was *responsive* as it provided budgetary support in a sizable amount. Because of its urgency, the government had planned to execute the stimulus measures during January–May 2009.[106] The CSF loan would have been considered highly responsive had it been disbursed within the timeframe of the stimulus plan, rather than several months later, in September 2009. Being a budgetary support, however, the loan retained its usefulness by being available to support development expenditure in 2010.

105. Specific results of the CSF loan are hard to assess. However, its initial results were found to be positive. The loan supported the government's stimulus plan, which aimed to help accelerate economic growth. While growth did accelerate and the stimulus plan did make its contribution to that process, the loan's attributes cannot be assessed with any precision. The stimulus plan had a relatively moderate focus on social expenditure. Moreover, while the government has introduced safety nets and pro-poor schemes, these were seen to have very

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[104] ADB. 2009. *Report and Recommendation of the President to the Board of Directors on the Proposed Loan to the Socialist Republic of* Viet *Nam: Countercyclical Support.* Manila.

[105] ADB. 2009. *Report and Recommendation of the President to the Board of Directors on the proposed loan for Subprogram 2 to Viet Nam for the Support of the Implementation of the Poverty Reduction Program V.* Manila

[106] Viet Nam's historical low levels of fiscal deficit, high government revenues to GDP ratio, low external debt to GNI ratio, and higher level of reserves relative to other CSF-borrowing countries meant higher headroom and affordability to manage lumpy repayments on external borrowings. This supports responsive rating for the country.

low effective coverage. Notwithstanding, the initial results of the CSF operation are considered *satisfactory*. The budgetary support provided under the CSF loan, and similar assistance from development partners, enabled the government to step up public expenditure under its stimulus plan despite an environment of resource crunch and uncertainty. Moreover, government officials hold that ADB's policy advice during preparation of the stimulus plan, and its participation with other development partners in policy dialogue with the government throughout the crisis was a source of assurance to investors. In the short run, Viet Nam's economy has weathered the impact of the global economic crisis much better than many other countries, but for the medium term, concerns remain about the management of macroeconomic aggregates and key sectors such as finance, banking, and industry. Sustainability of development would depend on how the structural weaknesses of Viet Nam's public institutions and the financial system—in particular the close relationship between large state-owned enterprises and the finance sector—and weaknesses in systems for governance and oversight of these enterprises are addressed in the medium term.[107]

C. Assessment of the Countercyclical Support Facility as an Instrument

1. Relevance

106. Overall, the CSF instrument is assessed as *relevant*. It was designed as a crisis-specific instrument for supporting countercyclical expenditure in middle-income, OCR-eligible DMCs. It would disburse funds swiftly to support countercyclical expenditures without burdening the DMCs with conditionality for structural policy reforms. This feature makes it an effective countercyclical instrument, because implementation of structural reforms has often been impractical in crisis situations.[108] Given its specific rationale to support countercyclical stimulus expenditure rather than broader economic development, the CSF was designed to be a short-term (5-year tenor including a 3-year grace period), moderately expensive (carries an interest rate at 200 basis points above the London interbank offered rate), and fast-track (could be processed like an emergency loan) instrument. The purpose, the product, and the terms of the CSF were thus in tune with the needs of several DMCs.

107. **Selection criteria.** Although, the criteria used for allocating CSF resources were prudent, there is a need for further refinement to make the instrument more sensitive to the needs of DMCs in a crisis. As designed, the criteria are (i) adverse impact of a crisis on the borrower's economy; (ii) availability of a countercyclical public expenditure plan for stimulation of demand in the economy; and (iii) prudent economic management and good macroeconomic performance regarding price stability, and fiscal and debt sustainability. The economic impact of a crisis is defined as serious reduction in growth and/or sharp reduction in exports and remittances. Likewise, crisis-induced major fiscal constraints, or major disruptions in access to external capital, are also considered a measure of adverse impact. The second component of the criteria relates to a borrower's stimulus plan. ADB requires that a specific countercyclical expenditure plan for demand stimulation, backed by the government's commitment to its implementation, should be in place. Moreover, the items of expenditure in the stimulus plan to be supported under CSF financing should comprise investments in public infrastructure works, and/or social safety nets and programs to safeguard the well-being of the poor and vulnerable population. All CSF loans justified the intervention based on an assessment along these criteria. Operations departments also carried out policy dialogue with Bangladesh, Indonesia, Kazakhstan, Philippines, and Viet Nam on crisis-related issues.

[107] ADB. 2009. *Country Assistance Program Evaluation: Socialist Republic of Viet Nam.* Manila. Para. 10.
[108] M. Feldstein. 1998. Refocusing the IMF. *Foreign Affairs* (March/April).

108. However, the criteria were rather general, and nearly all OCR-eligible DMCs could meet the requirements. This gave flexibility in operations as needed, but it could also make selection of recipients somewhat subjective. While flexibility would be needed to ensure expeditious selection of deserving borrowers and supportable causes, the criteria also should result in the flow of more resources to DMCs that are most affected by or vulnerable to crises. A further refinement of selection criteria could include assessment of (i) a DMC's vulnerability using a composite index based on information reflecting the fundamental strength of a policy regime and structural aspects of the economy,[109] (ii) the ability of the social protection system to cope with a crisis, and (iii) net resource transfers from all official sources of development assistance. This could ensure the flow of resources to the countries that are most affected. The criteria also need to include triggers for CSF assistance and principles for determining the quantum of ADB assistance.

2. Responsiveness

109. The CSF is found to be *responsive* to a majority of case study countries. However, its responsiveness as a crisis-focused instrument could be enhanced in four areas.

110. **Narrow focus and inflexibility.** The focus of the CSF was to transfer funds in support of fiscal stimulus packages as quickly as possible. The underlying assumption was that governments seek assistance during a crisis only for the purpose of strengthening their finances. However, a more nuanced analysis shows that governments seek or need assistance that demonstrates ADB's and/or agencies' continued confidence in the DMC's economic fundamentals and its management of the economy, thus giving a positive signal to financial markets. Such a signal may contribute to bolstering market confidence in the economy, which is critically needed to moderate or arrest instability during a crisis. The contingent loan of $1 billion to Indonesia ADB provided as part of a $5 billion multidonor assistance package in 2009 was designed precisely to give such a signal (footnote 83). When market conditions had improved sufficiently without triggering disbursements, the loan was cancelled by Indonesia without having to draw upon it. In the absence of a suitable fast-track processing instrument to provide contingent assistance, ADB used its regular program loan modality, which made for an awkward fit.

111. DMCs may seek ADB assistance for "insurance" purposes with no triggers attached—to assure themselves of access to additional resources just in case a crisis spins out of control in unexpected ways. If a crisis abates without becoming uncontrollable, the government may not use the facility. Bangladesh would have benefited from such flexibility, rather than a single-tranche disbursement. A more flexible CSF could have offered options such as deferred or partial drawdown, or prepayment with modest fees. Flexibility in adapting its terms to meet specific funding or nonfunding needs of DMCs would considerably enhance the responsiveness of the CSF.[110] Further, flexibility could make the CSF a contingent loan (of the type provided to Indonesia, see footnote 83) with the added advantage of fast-track processing.

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[109] For discussion on the usefulness of such an index see: ADB. 2010. *New Resilience of Emerging Market Countries: Weathering the Recent Crisis in the Global Economy.* Manila. The study was carried out under *TA 6508-REG: South Asia Forum on the Impact of Global Economic and Financial Crisis.*

[110] The policy paper to the Board proposing the creation of the CSF (ADB. 2009. *Enhancing ADB's Response to the Global Economic Crisis*. Manila.) did seem to recognize that: "…DMCs need contingency financial support at reasonable prices to mitigate (…) crisis-induced adverse impacts on the economy." (para. 8). However, the needed flexibility was not present in the final design of the CSF.

112. **Cost of the CSF**. In its present form, the CSF is expensive for blend countries, not so much for its price of 200 basis points above the London interbank offered rate but because of its shorter tenor, which is more suitable for OCR-only, middle-income countries. The cost is comparable to the World Bank's Special Development Policy lending instrument, which has a tenor of 5-10 years with a 3- to 5-year grace period. As in the case of Bangladesh, repayment of a loan within 2 years in hefty biannual installments could pose risks to the exchange rate management. Lumpy installments could also be unaffordable to the government, as it needs to divert large amounts of resources to repay the loan. Further, if the impact of a crisis is long and drawn out, countries may find it difficult to mobilize resources for repayment. Based on an assessment of repayment capacity, a longer tenor of up to 8 years for blend countries could make the instrument somewhat concessional and less burdensome for repayment.[111]

113. **Earmarking.** All CSF loans sought either to earmark the use of funds or to identify specific components of a stimulus package for closer monitoring. While recognizing that CSF assistance is by nature budgetary support, making it difficult to track its use, ADB had emphasized (in the absence of conditionality) that borrowers should use CSF funds to (i) enhance social safety nets to protect the well-being of the poor and the vulnerable population, and (ii) build public infrastructure to create employment. Trying to steer the use of the CSF along those lines was justified for reasons of equity and a larger social purpose. Besides, such an approach established some demonstrable and measurable targets by which to assess the use of ADB assistance and its outcomes and impact. While the earmarking is thus desirable, its practice is fraught with difficulties.

114. Most DMCs do have ongoing programs of social protection targeted at the poor and vulnerable groups. However, their performance is often compromised by poor targeting, capture by the nonpoor, waste, and other forms of leakage due to mismanagement. Therefore, earmarking the CSF for social safety net programs should be based on an adequate understanding of the schemes' performance to minimize the risk of achieving uncertain or even unintended results. Similar limitations could be expected when earmarking expenditure for labor-intensive rural works (also sometimes referred to as "shovel-ready" projects). Such projects are generally numerous and decentralized. They demand more intensive organizational, managerial, and consulting resources than their modest size and engineering simplicity might suggest.[112] Inputs are also needed to train and organize or mobilize beneficiary communities to build and manage the facilities to be created. While several DMC*s* have similar projects under implementation, they are usually characterized by delays, leakages, and low-quality outputs. Hence, the presumption that such shovel-ready projects are available in adequate numbers and a suitable state of readiness to scale up their execution at short notice and on the required scale needs to be closely examined.[113] While shovel-ready, labor-intensive projects have the potential to become important developmental tools both in a crisis and in noncrisis times, they are not as readily and plentifully available or as easily implemented as seems to have been assumed for the CSF loans. Therefore, earmarking of the CSF needs to be

[111] The World Bank provides tenors of up to 10 years, with grace periods of up to 5 years. While this would benefit the DMCs, it would lower loan reflows and constrain ADB's ability to respond to a crisis. An 8-year tenor could be a good middle ground for ADB and its clients.

[112] Rural infrastructure support to Indonesia's PNPM Mandiri Project (September 2008) and PNPM Mandiri II (October 2009) entailed national consultancy input of about 2000 person-months and 1000 person-months, respectively.

[113] Improvements in government procedures to speed up disbursement of funds to beneficiary communities can help cut delays in implementation, but only to a limited extend. This is so because funds for subject projects are disbursed to communities in the form of block grants, which is somewhat easier to do than to expedite the actual construction of facilities by the beneficiary communities. For this reason, ADB-level disbursement performance of such projects can yield misleading information unless supported with information on actual on-ground performance.

done after a careful assessment of (i) the readiness of a given project for implementation, (ii) project efficiency and effectiveness, and (iii) reliability of a country's own monitoring systems.

115. **Monitoring and evaluation.** Monitoring the utilization of budgetary support is usually fraught with major conceptual and practical difficulties, and more so in DMCs with weak monitoring systems. Two difficulties could affect monitoring of the use of CSF funds: First, social expenditures and the outcome of such expenditures are usually poorly documented and monitored, and reliable data are thus hard to obtain. Second, the resources for stimulus plans are normally added to overall government resources and provided as a part of annual government budgets or treated as such during implementation. The line ministries usually do not maintain separation between regular allocations and those earmarked for specific items under the stimulus. Consequently, any reliable information on the amount and the end use of ADB assistance (even when earmarked) will be speculative. This underlines the critical importance of a well-prepared design and monitoring framework (that weighs the strengths and weaknesses of a government's budgeting processes and internal monitoring systems) for effective monitoring of ADB assistance during its utilization. Monitoring of CSF programs was generally adequate in all the countries. In the absence of a design and monitoring framework, CSF programs in Indonesia, Philippines and Viet Nam relied on government targets.

116. In crisis situations it would be practical to base monitoring of ADB assistance on the more reliable parts of a government's own monitoring systems (particularly for earmarked expenditure), supplemented with periodic field reviews by ADB. In Tajikistan, ADB's earmarking of support programs that were not explicitly covered by the new monitoring and reporting systems, and lack of understanding of the national expenditure tracking system, did not help. Given the importance attached by many of ADB's shareholders to the earmarking of funds, ADB, in coordination with other donors, should have a policy dialogue on the monitoring of budget-support programs through country systems. In the absence of reliable country systems, it would be practical to avoid earmarking of funds until reliable monitoring systems are developed.

4. Results

117. Asia was the first region to recover from the crisis, thanks to decisive policy responses.[114] Developing Asia is expected to grow at 7.8% in 2011 (footnote 39). The recent *Asian Development Outlook* indicates that global recovery was supported by Asian demand, in particular from the PRC. The large, coordinated fiscal stimulus implemented in the region, in which the PRC contribution was significant, did stimulate demand to offset the collapse of external demand. While domestic needs and compulsions motivated the governments to implement the stimulus measures, the measures did have positive global spillovers.[115] Boosting of public spending in almost all large developing countries also seems to have helped regional recovery via trade links. Stimulus measures that included interest rate cuts did improve private consumption and investment. Spending seems to have had an immediate impact on the real economy to offset weak external demand (footnote 37). A global stimulus model by forecasters and researchers, Oxford Economics, predicted that fiscal stimulus measures announced by large Asian countries could have significant positive impacts on growth, though the impact on individual countries could vary depending on the extent of their economies' openness, the manner of financing of public spending, impact on public debt and its sustainability, institutional preparedness, and capacity to implement the stimulus packages.[116] However, it is difficult to say

[114] ADB. 2011. *Asian Development Outlook 2011.* Manila. p. 249.
[115] ADB. 2011. *Asian Development Outlook 2011.* Manila. p. 13.
[116] ADB. 2011. *Asian Development Outlook 2011.* Manila. p. 249.

to what extent the stimulus package may have benefited the poor, since the focus of some governments has been on expanding their spending on ongoing and/or ready-to-implement public investment projects to stimulate demand. Social protection expenditures, on the other hand, provide immediate succor to the poor and boost private consumption to have a larger short-term multiplier impact; but such programs also suffer from significant leakages and inefficiencies.

118. It is difficult to assess the contribution of ADB's crisis-response assistance to Asia's remarkable and early recovery from the global economic crisis, given the relatively small size of its operations. However, ADB played an important role in facilitating the recovery by (i) helping promote Asia's coordinated fiscal response through its policy dialogue, (ii) taking part in the stimulus packages of several countries by using its lending and nonlending products, and (iii) delivering satisfactory program outputs in most of the countries that received its crisis-related assistance.

D. Assessment of the Trade Finance Program[117]

1. Relevance

119. Trade finance has always tended to be highly vulnerable to crises. Trade finance also dried up in the late 1990s during the Asian financial crisis. Vulnerability arises because trade finance is different from other forms of credit such as for working capital and capital investment in ways that enhances its risk. During a crisis, difficulties arise in securing and enforcing credible commitments across borders, which deepens the risk to trade finance.[118] The rationale for enhanced ADB assistance for the TFP is well placed, because it was embedded in this risk. By significantly boosting access to trade finance, ADB's response was timely and strongly countercyclical.

120. The TFP as an instrument to combat the global economic crisis is *highly relevant* to Asia for five reasons: First, trade finance is critical for many Asian countries, as they have a high propensity to trade and strong trade links with other Asian countries for sourcing intermediate goods, and with developed market economies for selling their final output.[119] A healthy financial system and access to finance are critical for export growth. Previous banking crises have had a significant negative impact on export growth, particularly on sectors that are dependent on finance. Providing guarantees during a crisis can be a good policy to assist exporting firms in gaining access to financial markets.[120] Second, trade is the main route through which the global economic crisis has had its impact on Asia. Evidence shows that most severely affected countries are relatively small and dependent on trade. Loss of jobs in export-oriented industries, some of which employ a large number of women, caused serious concerns about the adverse effect on poverty reduction efforts. Third, access to trade finance is important for trade-oriented economies and is a critical element of international supply chains. The supply chains rely on a high level of trust, and confidence that suppliers have the financial resources to produce and supply their value-adding share in time. Disruption to this process due to the inability of financial

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[117] The assessment is based on desk reviews of relevant documents, consultations by the independent evaluation mission with issuing banks in Bangladesh, Indonesia, and Viet Nam; three confirming banks operating from Singapore and Sydney; and ADB staff.
[118] Chauffour, Jean-Pierre. Thomas Farole (2009). Trade Finance in Crisis: Market Adjustment or Market Failure?. *Policy* Research *Working Paper 5003*. Washington DC. The World Bank. p. 9.
[119] ADB. 2008. *Asian Development Outlook 2008.* Manila.
[120] L. Iacovone and V. Zavacka. 2009. Banking Crises and Exports: Lessons from the Past. *Policy Research Working Paper 5016.* Washington: The World Bank. p. 21.

institutions to provide working capital, preshipment export finance, issue and guarantee letters of credit, or other forms of trade finance will create gaps in complex processing and/or assembly operations. Such a disruption would be worrisome to international supply chains and could cause contraction of trade and output.[121] As the balance sheets of large confirming banks based in the developed world came under pressure, the banks became risk averse and focused on their own capital adequacy, which in turn badly affected access to trade finance in developing Asia.[122] The consequent squeeze on liquidity also made trade finance very costly. By the end of 2008, the cost of trade finance had increased by 2–3 times on a year earlier to 300–400 basis points over interbank refinance rates (Appendix 5). The cost of trade instruments such as letters of credit doubled or tripled in emerging countries like Argentina, Bangladesh, PRC, Pakistan, and Turkey.[123] Among other factors, reduced availability of trade finance contributed to the sharp contraction in global trade in 2008–2009.[124] Fourth, even in normal times, access to trade finance for less developed countries could be an issue because of their underdeveloped finance sector, weak banks, and high country risk. Fifth, the lack of access to adequate and low-cost trade credit could have macroeconomic consequences. It compels importers and exporters to access foreign exchange on the spot market to fulfill their payment obligations. A decline in exports in a crisis situation, and a higher probability of delayed payments for exports, reduces foreign exchange earnings. The resulting pressure on the exchange rate may amplify a country's external debt and payment difficulties, which could increase the country risk, which in turn could lead to further cutbacks in funding, including trade finance.[125]

2. Responsiveness

121. The G20 leaders, too, placed considerable emphasis on enhancing access to trade finance, because "there were credible concerns that the effects on trade finance would yield supply-side driven shortages, due to a private sector 'pull-back,' which would inflict further damages to already falling trade volumes,"[126] and they ensured the availability of $250 billion in trade finance for 2 years from April 2009. By significantly enhancing the exposure limit to trade finance, ADB contributed to this international effort. And the effort was timely.

122. The TFP has been *highly responsive.* ADB's response was significant in its magnitude, and timely. ADB's management of the facility won three international awards from trade journals.[127] The emphasis of the TFP's formulation on supporting SMEs, regional trade, and institutional development, particularly in group A and B countries, was appropriate.

123. In terms of implementation, the TFP provided aptly significant assistance (44% of the portfolio) to SMEs. A recent survey of trade finance carried out in 14 countries by the World

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[121] M. Auboin. 2009. Boosting the availability of trade finance in the current crisis: Background analysis for a substantial G-20 package. *Centre for Economic Policy Research: Policy Insight No 35.* Geneva: World Trade Organization Secretariat. p. 1.

[122] I. Asmundson T. Dorsey, A. Khachatryan, I. Niculcea, and M. Saito.. 2011. Trade and Trade Finance in the 2008–09 Financial Crisis. *IMF Working Paper WP/11/16*. Washington DC: IMF. p. 16.

[123] J.P. Chauffour, C. Saborowski. A. Soylemezoglu. 2010. Trade Finance in Crisis: Should Developing Countries Establish Export Credit Agencies? *Policy Research Working Paper No. 5166*. Washington DC: The World Bank. p. 3–5, 42.

[124] R. Gregory, C. Henn, B. McDonald, and M. Saito. 2010. Trade and the Crisis: Protect or Recover. *IMF Staff Position Note SPN/10/07*. Washington DC: International Monetary Fund. p. 5.

[125] IMF. 2003. *Trade Finance in Financial Crises: Assessment of Key Issues.* Washington DC.p. 3–4.

[126] G-20. 2010. Trade *Finance Experts Group – April Report Canada-Korea Chair's Recommendations for Finance Ministers.* London. p. 1.

[127] ADB won the *Trade Finance Magazine*'s award for the Best Asia Pacific Development Finance Institution in the area of trade finance for the years 2010 and 2011 putting it ahead of the International Finance Corporation and China Development Bank. *The Global Trade Review* awarded ADB the Best Development Bank in Trade for 2011.

Bank found that SMEs suffer most from the lack of access to trade credit. They most often cite the increased cost of trade finance instruments, more stringent bank guarantee requirements, and delays in payments from buyers as major constraints to their business. In Indonesia, SMEs reportedly paid more for trade finance than larger firms. In the Philippines, multinational banks tended to focus on larger firms and multinational companies and had little exposure to SMEs. Even domestic banks focused more on larger firms and established exporters, while cutting the credit lines to SMEs.[128]

124. More than half of TFP assistance supported regional trade and trade between DMCs. In doing so, besides promoting ADB's regional integration objectives, the TFP may have considerably eased a major impediment to trade during the crisis. A survey by IMF and the Bankers' Association for Finance and Trade found that rising costs of trade finance due to increased risk perception may have contributed to the collapse of trade in East Asia. In advanced countries, trade is dominated by products with high profit margins, and an increase in the cost of trade finance will have little impact on profitability. The conditions are different in East Asia, where countries specialize in high-volume manufactured goods with low profit margins. High-cost trade finance could considerably reduce their profit margins, making it unaffordable (footnote 74). By focusing more on Asian trade, the TFP may have contributed to easing the constraint imposed by the high cost of funds. Consultations by the independent evaluation missions with issuing banks and confirming banks clearly indicated that ADB's guarantee did help (i) reduce the cost of credit due to lowered risk, (ii) improve access to credit because confirming banks could use ADB's credit rating to ease their country exposure limits, and (iii) lengthen the tenor.

125. Both confirming banks and issuing banks indicated that ADB's risk assessment process was more stringent than that of the International Finance Corporation, and sometimes affected the timely response to deals that is so critical in trade finance. Although this was mentioned to independent evaluation missions, none of the respondents could provide concrete data on the magnitude of the delay. The TFP program may take note of this as client feedback and address the issue.

126. Even though program details are readily available to the public on the web, and known to commercial banks in DMCs, there was no indication of a conscious effort to inform government authorities about the program and its progress.[129] Informing member governments about the program and its progress would have (i) resulted in greater appreciation by governments of the comprehensive crisis-related support from ADB, and (ii) enabled the governments to use the program in their trade promotion efforts.

3. Results

127. Preliminary assessment shows that the TFP's impact on program outputs and initial outcomes has been *satisfactory*.[130] ADB's assistance for trade finance during the crisis was

[128] World Bank. 2009. *Trade and Trade Finance Developments in 14 Developing Countries Post September 2008–A World Bank Survey.* Washington DC. p. 12–13.
[129] Independent evaluation mission findings show that not one Viet Nam government official could recall being given information by ADB on the TFP, although most agree, when briefed on its design, that it is a good program and helped Viet Nam support trade flows during the crisis. Likewise in Bangladesh, key officials in the Ministry of Commerce were unaware of the program and felt that their government could have taken advantage of such an important tool to promote trade.
[130] The absence of data on trade finance and the proportion of trade covered by it makes it difficult to assess results. The program has been assessed mainly on the basis of the magnitude and pattern of its response to the crisis, and its impact on institutional development in DMCs.

$1.86 billion, which mobilized $2.8 billion in cofinancing to support a total trade of $4.7 billion. These amounts are not big compared with the total size of trade in Asia; or even in the 10 countries that received TFP assistance. For instance, Viet Nam, which received the highest amount ($385 million including cofinancing) in 2009, had a trade volume of $122 billion; yet the assistance was important for Viet Nam because its credit risk rating had been considerably downgraded by the confirming banks. By selecting a few high-performing banks that complied with the due diligence standards of the program, ADB provided credible information on the strengths of those banks, which boosted market confidence. ADB's guarantee eased the reluctance of confirming banks to provide credit lines to DMC banks at a time when they were hit hard by the global economic crisis. Thus the program improved access to credit and lowered the cost. Some issuing banks also mentioned collateral benefits from being selected for the ADB program—in Bangladesh, a bank selected for the TFP informed the independent evaluation mission that some confirming banks from within the region (PRC and India) did not do their own due diligence and relied on ADB's assessment to establish a partnership.

128. One of the aims of the TFP is to foster partnerships between international confirming banks and issuing banks in DMCs with the objective to develop new markets, establish new trade links, and facilitate transfer of knowhow and technology. The program has helped foster 96 partnerships between issuing banks in mainly group A and B countries and international banks. New partnerships, particularly with banks within the region, could help reduce transaction costs. Issuing banks and confirming banks informed the independent evaluation mission that such partnerships could promote a better understanding of institutional strengths and weaknesses and provide more accurate information about the risks of doing business.

129. Institutional development of banks in the developing countries is an important objective of the TFP. Besides providing immediate short-term support to protect trade flows, the TFP could foster longer-term development by promoting corporate governance, improving capacities of DMC banks, and strengthening fiduciary capacities. The International Chamber of Commerce acknowledged that the due diligence and institutional strengthening, technical assistance, and training inherent in the trade facilitation programs of multilateral development banks considerably reduced the risks associated with trade finance transactions involving issuing banks in developing countries.[131] Both issuing banks in DMCs and confirming banks informed the independent evaluation mission that the process of due diligence itself has brought an awareness among DMC banks about the need to maintain high standards of operational efficiency, disclosure, and governance. It has also created a desire among banks to become part of a multilateral development bank's trade finance programs, because inclusion provides credible information to the market about their relative strengths.

E. Regular Assistance and Knowledge Support

130. The operational preparedness of ADB in assessing potential risks to the Asia and Pacific region, and to individual countries, and the rationale for strategically positioning its crisis-response instruments were *highly relevant.* ADB began assessing the potential risks to the region soon after the financial crisis unfolded in the US in 2007. The Board of Directors of ADB was briefed about (i) the implications for Asia and the Pacific of the global financial turmoil in August 2007, and (ii) on how resilient Asia was to global economic turmoil in April 2008. Since December 2007, ADB used its key publications—*Asia Economic Monitor* and *Asian Development Outlook* (and its *Updates*)—to present its assessment of the risks. Between the two publications, ADB's assessments were available to DMCs almost on a quarterly basis. ADB

[131] International Chamber of Commerce. (2010). *Rethinking Global Finance 2010.* Paris. p. 38.

staff and Management also used various other platforms to communicate ADB's analysis and assessments (Appendix 4). In designing their assistance, operations departments carried out risk assessments on their own and in response to specific requests from DMCs. Notable among them is a comprehensive study of 19 DMCs done by the South Asia Department of ADB.[132] This initiative also brought together a large gathering of ministers of finance and central bank governments from all over Asia to discuss crisis mitigation policies and improved surveillance of their economies. The regional departments stepped up their knowledge work and management briefs relating the global economic crisis and their responses.. ADB made its first confidential operational risk assessment and an operational response plan soon after the collapse of Lehman Brothers in September 2008. In October 2008, ADB assessed the macroeconomic soundness and vulnerability of developing Asia to the global crisis and prepared a plan of assistance (see footnotes 40 and 41). ADB coordinated its assistance closely with other aid agencies in the countries visited by evaluation missions; the coordination was particularly notable in Indonesia, Kazakhstan, Tajikistan, and Viet Nam.

131. ADB's regular operations were *responsive* to the crisis. ADB substantially enhanced the volume of its regular lending.[133] Much of this additional assistance was aimed at DMCs that were severely affected by the crisis—Armenia, Cook Islands, Georgia, Mongolia, Pakistan, Philippines, Solomon Islands, and Tonga. Program completion reports have rated ADB crisis response interventions in Armenia, Georgia, and Tajikistan as *successful* and have noted the constraint faced by the operations departments by the absence of an appropriate instrument to respond to crises in ADF countries.[134] They found the program lending modality to be unsuitable, while ADB's special program loan facility could be used only in the case of a balance of payments crisis. The completion reports recommended creation of an instrument akin to the CSF that would enable faster processing of ADB assistance for crisis-hit ADF countries. DMCs conveyed to the evaluation missions their appreciation of ADB's response to the crisis and the form it used to provide it. Officials in Bangladesh, Indonesia, Kazakhstan, Philippines, and Viet Nam also appreciated ADB's analytical and policy support. The proactive role played by resident missions in Bangladesh and Tajikistan was also cited.

132. In spite of this, overall assistance to the most severely affected DMCs grew more slowly than the assistance provided to moderately and less-affected countries, in part due to the absence of a special crisis support window for ADF countries, and the relative inflexibility in the formula-based *inter se* allocation of ADF resources. Some of the severely affected countries also received negative resource flows from ADB during 2009, when the impact of the crisis was severe. ADB faced headroom limitation to provide assistance to some of the DMCs earlier than it actually did. However, development and processing of new proposals for anticrisis assistance in anticipation of the capital increase would have improved the timeliness of assistance.

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[132] ADB. 2008. *TA 6508-REG: South Asia Forum on the Impact of the Global Economic and Financial Crisis.* Manila. The study covered Afghanistan, Armenia, Azerbaijan, Bangladesh, Bhutan, PRC, Georgia, India, Indonesia, Kazakhstan, Maldives, Mongolia, Nepal, Pakistan, Philippines, Sri Lanka, Thailand, Tajikistan, and Uzbekistan.

[133] See Appendix 4, Table A4.3 for the list of 24 crisis-response loans, of which 19 were regular operations amounting to about $2.45 billion; they are in addition to the $2.5 billion provided through the CSF.

[134] ADB. 2010. *Completion Report: Crisis Recovery Support Program in Armenia.* Manila; ADB. 2010. *Completion Report: Growth Recovery Support Program in Georgia*. Manila; and ADB. 2010. *Program Completion Report Crisis Recovery Support Program in Tajikistan*. Manila

F. Overall Assessment

133. Assessing the outcome of ADB's crisis response assistance is difficult due to its small size compared to stimulus packages of DMCs. However, ADB did play an important role in promoting and taking part in Asia's coordinated fiscal response. ADB's overall response to the global economic crisis was *relevant*, *responsive*, and *satisfactory* in delivering initial results in the short term. There is, however, scope for enhancing the effectiveness of the CSF and ADB's preparedness for timely delivery of assistance in the future. ADB mobilized effectively all the institutional resources under its control to respond to the crisis; but was constrained by inadequacy of financial resources to mount a timely response.

VI. KEY FINDINGS, ISSUES, LESSONS FOR THE FUTURE, AND RECOMMENDATIONS

A. Key Findings

134. The key findings of the evaluation are as follows.

135. DMCs with deep integration in the global economic system through exports of goods and/or labor services were affected most by the crisis. Sudden and deep cuts in the net capital flows to developing countries also badly affected several DMCs, particularly in Central Asia. With few exceptions, initial macroeconomic conditions, including the fiscal balances, among DMCs were generally sound to satisfactory. The crisis had rather limited impact on DMCs' finance sectors.

136. Clear global consensus on launching a coordinated fiscal expansion to stimulate aggregate demand helped DMCs initiate necessary actions without delay or any of the policy missteps that had characterized the response to the Asian crisis in 1997. Most DMCs implemented stimulus programs with a modest amount of external assistance and without undermining fiscal sustainability. Besides budgetary support, DMCs needed external assistance for two equally critical reasons: (i) to send a strong signal of confidence from multilateral development banks and bilateral aid agencies in a country's economic fundamentals and management, so as to dampen erosion of confidence among external commercial creditors and investors, and domestic asset holders; and (ii) to boost a country's fiscal pool in readiness to fight the uncertainties of the crisis.

137. ADB was better prepared to respond to this crisis than to the Asian crisis. From late 2008, ADB recognized the need to launch an assistance program for its DMCs in their response to the crisis, introduced new and relevant instruments, modified internal systems and procedures, and substantially ramped up its lending and nonlending operations in 2009, and moderately in 2010.

138. Closer surveillance of many DMCs, and preparation and dissemination of relevant analytical work by knowledge and operations departments, put ADB in a much better position to respond to the crisis than in 1997. Many DMCs acknowledged the value of ADB's knowledge support and policy advice. Better coordination of efforts between knowledge and operations departments, and among operations departments themselves, would have ensured optimal use of experienced staff and mitigated the crisis-induced asymmetry in operational needs.

139. However, ADB's efforts in responding swiftly to the crisis were hampered by the lack of capital resources at the beginning of 2009, having used up available borrowing capacity in the preceding years. ADB was therefore delayed in delivering assistance to DMCs until after its

shareholders approved a general capital increase in May 2009. Institutional readiness to assist future crises would need to take this aspect into account.

140. ADB substantially enhanced its assistance to DMCs in 2009, mobilized three times more cofinancing, and introduced a new instrument to respond to the crisis.

141. The crisis had a relatively severe impact on smaller DMCs. Many of them are also the recipients of concessional ADB resources. Owing to an inflexible resource envelope and somewhat rigid allocation rules, many severely affected small DMCs received a relatively smaller share of ADB's crisis-related assistance than moderately affected countries.

142. Existing criteria for accessing ADB crisis support paid insufficient attention to assessing the vulnerability of DMCs to a crisis and did not consider projected net flow of resources to DMCs. This and the absence of a special window to assist ADF countries inadvertently made ADB operations procyclical in several smaller DMCs in the Pacific.

143. The CSF is an ideal instrument to support the fiscal stimulus programs of DMCs. To be more effective, it has to offer flexibility to tailor assistance to a DMC's specific circumstances. A longer tenor would enhance its usefulness to Group B countries. A flexible CSF would enable ADB to offer a range of products to meet DMC needs in a crisis.

144. The TFP is an effective instrument to mitigate the impact of a crisis. In normal times it has the potential to maintain ADB’s crisis preparedness, strengthen the banking sector in weaker DMCs, and fill persistent gaps in markets by helping smaller DMCs access trade finance. However, its actual performance in this regard will have to be assessed at greater depth.

B. Issues

145. Ideally, ADB needs to be prepared both institutionally and financially to respond to a crisis. Its ability to respond financially will depend on two important factors: (i) its risk-bearing capacity, defined by capital scope; and (ii) the credit quality of its portfolio, which a crisis could affect in unexpected ways. As ADB’s exposure to nonsovereign operations increases, so too does the vulnerability of its portfolio. Its ability to respond to a crisis would also be influenced by the reflow of resources from its past lending. There are three broad ways in which ADB could remain prepared for a crisis: First, create a layer of buffer capital as a reserve that is adequate to support the increased lending necessary during a crisis—although this could adversely affect ADB's development effectiveness. Second, carry on with a sustainable level of operations and, when a crisis arises, reduce the level of future operations adequately in order to accommodate the necessary increase in crisis lending.[135] These two options entail a trade-off between crisis response and regular operations. A third option would be for ADB to augment its risk-bearing capacity to mount a crisis response with shareholders’ assistance when a crisis is imminent. To stay prepared, ADB could evaluate its options regarding the feasible extent of a crisis response, financing modalities, and terms of such a response, and the implications for normal lending activity, as part of its medium-term planning.

C. Lessons for the Future

146. The above findings offer the following lessons for the future.

[135] ADB. 2009. *Policy Paper: The Fifth General Capital Increase of the Asian Development Bank*. Manila. Points out to the trade-off involved in providing crisis response assistance to the global economic crisis of 2008-2009.

147. **Institutional readiness and greater flexibility are important in responding to crises.** Timeliness is critical in crisis response; usually, the earlier the response, the more effective it is. ADB, however, had no capacity to mobilize additional funds in late 2008, and was unable to provide much assistance until the second half of 2009, by which time the crisis began to abate and recovery started in some DMCs. Such a delay in providing assistance did diminish the value of its assistance to some extent. Institutional readiness to assist in future crises should place emphasis on (i) the need for capital headroom for contingencies, and (ii) the timeliness of assistance. There will be a trade-off between ADB's crisis response operations and its normal operations unless ADB augments its risk-bearing capacity to mount a crisis response when a crisis is imminent. To stay prepared, ADB could evaluate the options for possible crisis response size, financing modalities and terms of such response, and their implications for normal lending operations as part of its medium-term planning. [paragraphs 20–25, 145].

148. **Surveillance of more countries and regions would further enhance ADB's crisis response ability.** ADB was better prepared institutionally to respond to this crisis than to the Asian crisis in 1997, in part thanks to OREI's assistance to surveillance in East and Southeast Asia. ADB could further strengthen the depth and frequency of macroeconomic analysis of countries, and widen its surveillance capacity development and monitoring activities to regions outside East and Southeast Asia. A deep understanding of the macroeconomic situation in the DMCs, and continuous monitoring of macroeconomic and finance sector developments will enable ADB to assess the vulnerability of individual DMCs to future crises and equip itself to respond more effectively. (chapter IV, section C)

149. **A crisis response facility for ADF-only countries would have been useful.** While ADB successfully mobilized significant additional resources to help DMCs, the benefits of its response were unevenly distributed, to the disadvantage of severely affected countries. As a group, the countries that were most affected by the crisis received ADB assistance at a lower growth rate than moderately and least-affected countries. This was in part due to the absence of a concessional crisis-response window that would exclusively help smaller and poorer countries. ADB did try to enhance assistance to severely affected countries, but the rigidity of ADF allocation and the difficulties in the use of regular program and project loans for such countries constrained its efforts. (paras. 43–45,131)

150. **What is most important in a crisis situation is making more resources available.** For this, the focus of ADB should be on increasing disbursements. During crisis situations ADB would also need to assess net resource transfers to DMCs from all official sources of development assistance. The evaluation found that a number of smaller DMCs, although most affected by the crisis, received negative net transfers from ADB in 2009—making ADB operations inadvertently procyclical. This situation would not have arisen if the eligibility criteria used to allocate crisis-response resources to DMCs had taken into consideration the projected net resource transfer position from all sources, particularly for the most vulnerable countries. (paras. 46–48)

151. **Better internal coordination and collaboration at ADB among departments would have made the assistance more efficient.** ADB's response to the crisis would have been even more efficient and resulted in a more optimal use of resources if there had been an arrangement (e.g., a committee of directors general) with one nodal lead to coordinate crisis-related responses of operations departments and relevant knowledge departments. There was close interdepartmental coordination for preparing Plan B, which was readied in December

2008.[136] However, better coordination between operations departments could have moderated the crisis-induced asymmetry in the operational burden on departments and staff. A coordinated and collaborative approach would have allowed cross-departmental use of experienced and highly skilled staff, which could have further improved the quality of products and possibly reduced processing time, which had already been compressed. (paras. 22, 40–41, 63)

152. **The CSF could be designated as a standby facility offering greater flexibility in disbursements. Blend countries would benefit from longer tenor where needed.** The evaluation found the CSF to be a useful instrument to respond to a crisis. However, it would be more effective if it offered more flexibility in loan size and tenor to fit the diverse needs of countries. As found in the case of Bangladesh, which is not a middle income country, greater flexibility in withdrawing funds from the loan in the amounts and at the time needed by the government would have made the instrument more effective. Greater flexibility in disbursements, similar to the deferred drawdown facility offered by the World Bank, would have enhanced the CSF's responsiveness. Further, a fixed 5-year tenor for all countries makes the instrument less suitable for some poorer countries which are eligible for a blend of ADB's OCR and ADF assistance. Some of them could find it impractical, if not disruptive, to repay the loan within just 2 years in hefty biannual installments. A longer tenor (up to 8 years based on assessed need) would make the facility more concessional to the blend countries, which are unlikely to get access to the crisis-response window under the ADF. (paras. 69–70, 110–112)

153. **Precautionary financing instrument as a facility variant**. A precautionary financing instrument (similar to the contingent loan provided to Indonesia) would be a useful instrument to respond to future crises, particularly to help middle-income countries. To be effective, the facility has to be provided rapidly and jointly by all participating agencies, since the intent of such an intervention is to give a positive signal to the markets. The contingent loan to Indonesia is akin to ADB's regular program loan in its tenor and processing approach. ADB would need to assess the implication that longer tenors in crisis-support loans would have on its own capital capacity. If the CSF is designed as a flexible instrument, the precautionary finance instrument could become a variant of the CSF. This would also allow fast-track processing of precautionary finance loans—a great advantage in a crisis. (paras. 74, 76, 110–111)

154. **More rigorous assessment of vulnerability and coping abilities, and paying attention to net resource transfers, would have improved targeting.** A further refinement of selection criteria—to include assessment of (i) the vulnerability of a DMC via a composite index based on information that reflects the fundamental strength of the policy regime and structural aspects of the economy (see footnote 109), (ii) the ability of the social protection systems to cope with a crisis, and (iii) the net resource transfers from all official sources of development assistance—could ensure the flow of resources to countries that are more affected by a crisis and in greater need. The criteria also need to include triggers for CSF assistance and principles for determining the quantum of assistance from ADB. (paras. 107–108]

155. **The Trade Finance Program is a useful instrument during crises.** The TFP is an excellent crisis-response tool, particularly in Asia, where trade intensity is high; and for smaller DMCs that rely on foreign trade and are more vulnerable to global crises. Continuation of the program could help ADB stay engaged with local banks in DMCs and would assist in scaling up the facility in response to a crisis. It could potentially strengthen the banking sector in weaker DMCs, and fill persistent market gaps by helping smaller DMCs access trade finance. However,

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[136] ADB. 2008. *Plan B: ADB Crisis Management Measures [Confidential].* Manila. Office of Regional Economic Integration. This plan did talk about putting in place such a standing arrangement of directors general.

the TFP's actual performance in this regard will have to be assessed in greater depth. It would thus be useful to study, at a later date, the relevance and effectiveness of the TFP at the subproject/borrower level from the point of view of development impact, ADB profitability, and ADB additionality. (paras. 119–129]

156. **A medium-term focus on building social protection systems in DMCs collaboratively by development partners would enhance DMCs' resilience to crises.**[137] Social protection programs are attractive crisis-mitigating instruments for two reasons: (i) They have an inbuilt countercyclical bias; and (ii) they protect the poor, who are the first to be affected by a crisis. If a country has an established social protection program—such as the conditional cash transfer program of Brazil, or the employment guarantee program of India—it can be scaled up or down as required. In the presence of such programs, ADB's crisis support would be more effective and DMCs would become resilient to crises. However, social protection programs are often characterized by poor targeting, leakages, and waste. For this reason, deeper knowledge about the operation and performance of such schemes is necessary if ADB is to rely on them in future. In the medium term, ADB, jointly with other aid agencies, could develop comprehensive, well-targeted social protection systems in DMCs, keeping in mind country vulnerabilities, affordability, and administrative and political economy considerations. (Based on the assessment of governments' responses in the case study countries, particularly Bangladesh, Indonesia, Kazakhstan, and Philippines.)

D. Recommendations

157. Based on the key findings and lessons discussed above, the study makes the following recommendations for consideration by ADB management.

(i) Create a crisis-response window for ADF-only DMCs to provide assistance at a suitable cost and tenor. This will help ADB respond more flexibly and substantially to the needs of poorer and smaller crisis-affected countries.

(ii) Mainstream the CSF as a flexible crisis-response lending instrument to help ADB respond to future crises. A flexible facility could offer a range of products to assist DMCs that are eligible for OCR in responding to future crises. The tenor of the facility could be longer for countries eligible for both OCR and ADF assistance (based on assessed need) to enhance the CSF's concessionality. A flexible crisis-response instrument will considerably enhance both the timeliness and responsiveness of ADB assistance while taking into account the diverse needs of DMCs. Flexibility could also make the CSF a contingent loan with the added advantage of fast-track processing.

(iii) Strengthen macroeconomic and financial sector surveillance and surveillance capacity development to include other regions—such as the Pacific, Central and West Asia, and South Asia—to help DMCs better prepare for and manage future crises. Experience from this crisis showed that better surveillance pays off. Developing surveillance capacity in hitherto insufficiently covered DMCs and regions would further enhance ADB's ability to respond effectively to future crises.

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[137] Commission on Growth and Development. 2010. *Post-Crisis Growth in Developing Countries: A Special Report of the Commission on Growth and Development on the Implications of the 2008 Financial Crisis.* Washington DC. The World Bank.

EVALUATION FRAMEWORK, METHOD, AND DATA

A. Evaluation Matrix and Questions

Evaluation Criteria	Evaluation questions	Required information and sources	Methods of collection
Assessment of ADB's preparedness and its crisis response instruments			
Relevance	As the financial crisis unfolded in 2008, did ADB assess its potential risks to the region and communicate the same to its staff and external clients effectively?	ADB's effective monitoring of the Asia Pacific region's economic environment to assess strengths, opportunities, and vulnerabilities. Evidence of dissemination of relevant knowledge within ADB and outside, and policy dialogue	Review of documents and discussions with OREI, PSOD and SPD
	Did regional departments assess the vulnerability of individual countries, carry out policy dialogue on crisis response to program suitable interventions to assist DMCs? How relevant are CSF and TFP for crisis response in terms of their strategic positioning; objectives; product design in terms of pricing, tenure and alignment; conditionality; eligibility criteria; and suitability to country requirements?	Evidence of monitoring of economic environment in DMCs and assessment of vulnerabilities. Programming of crisis response Review and evaluation of the CSF and TFP based on the finding of country case studies and views of stakeholders within and outside ADB	Review of documents pertaining to country economic work and programming, and knowledge products on crisis produced by regional departments. Discussions with regional departments
Responsiveness (Efficiency of formulation and implementation)	How well did ADB coordinate its response with other development partners on program design, policy analysis, debt sustainability assessment, and for additional resource mobilization? How appropriate was the pricing of the CSF (and TFP) given its (their) characteristics and short-term nature?	Evidence of donor coordination prior to and during the crisis to design crisis response. Relevant background documents available from SPD, OCO, and the treasury	Discussions with SPD, OCO, and treasury, and review of relevant documents

Evaluation Criteria	Evaluation questions	Required information and sources	Methods of collection
Results (Effectiveness in achieving program objectives and initial outcomes)	What is the clients' (governments and the central banks for the CSF, and commercial banks and business leaders for the TFP) and other stakeholders' perception on the effectiveness, quality, and timeliness of ADB response? Did the announcement of ADB and other donor assistance result in favorable market response?	Clients' views on ADB's crisis response Review of movements in key market and price indices	Focus group discussions and/or interviews Review of economic environment in the case study countries
Sustainability	What is the impact of 2009 crisis response on ADB's ability to respond in future? Is ADB's financial or human resource capacity adequate for future crisis response? What are the lessons from ADB's crisis response for similar assistance should such need arise in the future?	Assessment of (i) impact of crisis-related assistance provided in 2009 on ADB's ability to respond in future in terms of its financial and human resource capacity; and (ii) what it takes to mainstream the CSF	Consultation with SPD, the treasury department, and clients/stakeholders in the case study countries
Assessment of ADB's assistance to economic crisis response in case study countries			
Relevance	Did the relative vulnerability and needs of countries determine CSF resource allocation? Was the impact of food and energy price crisis and the decline in commodity prices that preceded the global economic crisis taken into account in assessing needs? How well did the needs assessment fit the criteria indicated in ADB's crisis-response policy?	Review macroeconomic trends covering key variables[1] before, during and after the crisis; in particular, provide an assessment of the impact of food and fuel price crisis that preceded the global economic crisis. Identification of transmission channels Analytical review of the macroeconomic policy regime before the global economic crisis, as the crisis unfolded during 2008	Collection and analysis of secondary data and relevant literature. Country background paper for the case study countries

[1] Include monetary trends, policy and market interest rates, prices, government revenues and expenditures (on consumption, investment, and social protection, foreign trade (key commodities) and balance of payments, gross domestic product and its key components, unemployment and poverty.

Evaluation Criteria	Evaluation questions	Required information and sources	Methods of collection
	How well did the assistance fit into the government's stimulus package? How relevant and appropriate ADB's response was in terms of the choice of instruments, the amount and time, meeting DMC specific needs determined by the channels of transmission of the crisis and its impact? Were the programs based on a medium term fiscal frameworks? Were the frameworks appropriate? Are they likely to create debt stress to recipients due to short repayment period? How aligned is the assistance provided with the objectives of CSF to protect the vulnerable and minimize the impact on essential investment spending?	and 2009, and after the passage of the peak crisis period. The review will cover fiscal policy, monetary policy, financial sector policies, trade policies, and social protection policies. Review and analysis of governments' stimulus packages in the case study countries Assessment of impact of government stimulus programs in terms of meeting the CSF and TFP program objectives to (i) restore economic stability, market confidence, health of the financial system, and trade; (ii) stimulate demand through countercyclical monetary and fiscal policies; (iii) minimize contraction of investments needed for long-term growth and social stability (infrastructure, education, and health); (iv) protect the vulnerable and the poor; and (v) support structural reforms Review of relevant policy documents, data sources, and literature on crisis	In country studies in the selected case study countries
<u>Responsiveness</u> (Efficiency of formulation and implementation)	How well did ADB coordinate its response with other development partners on program design, policy analysis, debt sustainability assessment, and for additional resource mobilization? Has ADB led the donor response overall or in parts? How fast were the disbursements made to		

Evaluation Criteria	Evaluation questions	Required information and sources	Methods of collection
	support public spending?		
<u>Results</u> (Effectiveness in achieving program objectives and initial outcomes)	Did the government stimulus program work in terms of meeting the CSF and TFP program objectives to (i) restore economic stability, market confidence, health of the financial system, and trade; (ii) stimulate demand through countercyclical monetary and fiscal policies; (iii) minimize compression of investments needed for long-term growth and social stability (infrastructure, education, and health); (iv) protect the vulnerable and the poor; and (v) support structural reforms? During the recovery period was there an attempt to introduce policy reforms to minimize the impact of future financial crisis? Did the announcement of ADB and other donor assistance result in favorable market response? How have the markets moved since the implementation of stimulus packages? Did trade financing improve access and reduce in interest rates? How much trade ADB finance? What have been the movements in unemployment, wages, prices, and output?	Analyze the speed and magnitude of recovery and the contribution of stimulus measures to recovery, and in protecting social spending for the poor and essential investment expenditure Assessment of impact of government stimulus programs in terms of meeting the CSF and TFP program objectives to (i) restore economic stability, market confidence, health of the financial system, and trade; (ii) stimulate demand through countercyclical monetary and fiscal policies; (iii) minimize compression of investments needed for long-term growth and social stability (infrastructure, education, and health); (iv) protect the vulnerable and the poor; and (v) support structural reforms Review of relevant policy documents, data sources, and literature on crisis	In country studies in the selected case study countries
<u>Sustainability</u>	How well has government policy complied with the three T's of stimulus packages—timely, targeted, and temporary? Was there a plan to allow orderly withdrawal of stimulus measures? Are there any impending threats and risks to	Review of relevant policy documents, data sources, and literature on crisis	In country studies in the selected case study countries

Evaluation Criteria	Evaluation questions	Required information and sources	Methods of collection
	program success?		
Evaluability	What is the quality of design monitoring frameworks and the effectiveness of monitoring of program progress? CSF envisages six-monthly monitoring of program objectives and key macroeconomic and fiscal developments. How adequate are the monitoring mechanisms to assess the impact of program?		

ADB = Asian Development Bank, CSF = countercyclical support facility, DMC = developing member country, TFP = trade finance facility, OCO = Office of Cofinancing Operations, OREI = Office of Regional Economic Integration, PSOD = Private Sector Operations Department, SPD = Strategy and Policy Department.

B. Global Economic Crisis: Real-Time Evaluation of ADB's Crisis Response: Annotated Outline of Country Studies and Data Requirements

1. The evaluation of the response of the Asian Development Bank (ADB) to the global economic crisis includes an in-depth study of its response in six countries[1]. The main report will have six chapters and it will consolidate key findings from the six country reports. The individual country reports will be used to prepare the main report. The objective of this annotated outline of country chapters is to ensure a degree of uniformity in the coverage of key issues in all chapters, to allow easy consolidation of findings. However, country-chapter writers may go beyond the outline to reflect country-specific situations and needs.

1. Introduction

2. The objective of the proposed evaluation is to assess the relevance, results, and sustainability of ADB's response to the global economic crisis. The assessment will cover both the instruments used to assist DMCs, and the assistance provided to help mitigate the impact of the crisis. ADB mainly used two modalities—the countercyclical support facility (CSF) and the trade finance program (TFP)—to respond to the crisis, in addition to increasing the allocation for its regular program loans. Chapter I will discuss the scope of the study, methods used, and the chapter scheme.

2. The Transmission of the Crisis and its Impact

(i) Analytically review and assess the macroeconomic policy regime before the crisis. The assessment will cover fiscal policy, monetary policy, financial sector policies, trade policies, and social protection policies, and assess the effectiveness and the adequacy of the policy regime;
(ii) Track the changes in the policy regime as the crisis unfolded in late 2008 to early 2009, and after the crisis;
(iii) Assess the impact of the food and fuel price crisis that preceded the global economic crisis based on a review of macroeconomic trends covering key variables[2] (The impact could be positive or negative depending on country situations—e.g., energy price increase benefited energy exporters);
(iv) Assess the impact of the crisis on key economic sectors, foreign trade, government revenues and expenditure (particularly social spending and investment);
(v) Identify major channels and sector of transmission and the contributing factors;
(vi) Discuss the consequences of the crisis on unemployment (of men and women), wage rates, poverty, consumer confidence, and business confidence;
(vii) Assess the impact of the crisis in constraining access to credit for foreign trade.

3. Government's Response to Crisis

(i) Discuss (a) the magnitude and areas of government's response to stimulate demand, (b) pro-poor bias in the crisis-response policies and the share of pro-poor expenditure in the stimulus; (c) the appropriateness of sequencing of

[1] Bangladesh, Indonesia, Kazakhstan, the Philippines, Tajikistan, and Viet Nam.
[2] Include monetary trends, policy and market interest rates, prices, government revenues and expenditures (on consumption, investment, and social protection, foreign trade—key commodities—and balance of payments, gross domestic product and its key components, unemployment and poverty.

measures, (d) the degree of coordination of countercyclical monetary and fiscal policies, and (e) the relevance and effectiveness of government's response to plug the channels of transmission;

(ii) Did the countercyclical policy seek to (a) protect public investment in infrastructure, (b) the poor and vulnerable groups through targeted social safety-net programs? If not, why? What are the perceptions of policy makers on pro-poor bias?

(iii) How did donors contribute to the government's response to the crisis? The areas of support—including policy dialogue and technical assistance;

(iv) What has been ADB's role? What are the perceptions of government and other donors on ADB performance?

(v) Comment on the quality, coverage, timeliness, and adequacy of the response.

4. The Impact of Crisis-Response Policies

(i) Analyze the speed and magnitude of recovery and the contribution of stimulus measures, and discuss the role of ADB assistance through CSF, TFP and other program loans;

(ii) Give a preliminary assessment of the impact of the government's crisis response in:

a. restoring economic stability, market confidence, health of the financial system, and trade;
b. stimulating demand;
c. minimizing the compression of public spending on investment and social sectors;
d. protecting the vulnerable and the poor;
e. supporting structural reforms; and
f. restoring foreign trade;

(iii) Assess the impact of the TFP in easing credit constraints on foreign trade, and on institutional capacity development in the domestic banking.

5. Assessment of ADB's Response and Its Implementation

3. Evaluate, using the information provided in chapters II-IV and the questions in the evaluation framework, ADB's crisis response regarding (i) relevance, in terms of rationale, consistency, and design; (ii) responsiveness in terms of efficiency of implementation, and; (iii) results in terms of achievement of program objectives, initial outcomes, and sustainability.

6. Conclusions and Lessons

4. This chapter will provide an analytical summary of results and draw lessons for the future focus on (a) relevance, responsiveness, and sustainability of ADB support; (b) the implications of the lack of conditionality for development effectiveness; (c) the role of alternative instruments to respond to a crisis, such as credit enhancement products; (d) crisis response in ADF countries, (d) program design, its implementation and monitoring, and (e) overall effectiveness of public spending-oriented crisis-response programs, keeping in mind the high import intensity and saving rates of most Asian economies.

SEVERITY OF IMPACT OF THE GLOBAL CRISIS ON DEVELOPING MEMBER COUNTRIES

Developing Member Countries	Gross Domestic Product Growth Rate (%) 2005	2006	2007	2008	2009	2010	Mean GDP Growth Rate (%) 2005–2007	2008–2009
Severely Affected (20)								
Armenia	13.9	13.2	13.7	6.9	(14.2)	2.6	13.6	(3.7)
Azerbaijan	26.4	34.5	25.1	10.8	9.3	5.0	28.7	10.1
Cambodia	13.3	10.8	10.2	6.7	0.1	6.3	11.4	3.4
Cook Islands	0.0	0.7	9.5	(1.2)	(0.1)	0.5	3.4	(0.7)
Fiji Islands	0.6	1.9	(0.9)	0.2	(3.0)	0.1	0.5	(1.4)
Georgia	9.6	9.4	12.3	2.3	(3.8)	6.4	10.4	(0.8)
Kazakhstan	9.7	10.7	8.9	3.3	1.2	7.0	9.8	2.3
Kiribati	3.9	1.9	0.4	(1.1)	(0.7)	0.5	2.1	(0.9)
Maldives	(4.6)	18.0	7.2	6.2	(2.3)	4.8	6.9	2.0
Marshall Islands	0.7	1.6	3.5	(1.6)	(2.1)	0.5	1.9	(1.9)
Micronesia, Federated States of	3.0	(0.4)	(2.0)	(2.3)	0.5	0.5	0.2	(0.9)
Mongolia	7.3	8.6	10.2	8.9	(1.3)	6.1	8.7	3.8
Pakistan	9.0	5.8	6.8	3.7	1.2	4.1	7.2	2.5
Palau	5.9	(3.7)	(0.5)	(4.9)	(2.1)	2.0	0.6	(3.5)
Philippines	5.0	5.3	7.1	3.7	1.1	7.3	5.8	2.4
Samoa	5.4	0.3	6.6	(3.2)	(1.7)	0.0	4.1	(2.5)
Solomon Islands	5.4	6.9	10.3	7.3	(1.2)	4.0	7.5	3.1
Thailand	4.6	5.1	5.0	2.5	(2.3)	7.8	4.9	0.1
Tonga	(1.0)	0.6	(1.4)	2.0	(0.4)	(1.2)	(0.6)	0.8
Tuvalu	(4.1)	6.6	4.9	1.3	(1.7)	0.0	2.5	(0.2)
Subtotal							7.0	1.8
Moderately Affected (5)								
China, People's Republic of	10.4	12.7	14.2	9.6	9.2	10.3	12.4	9.4
India	9.5	9.7	9.2	6.7	8.0	8.6	9.5	7.4
Sri Lanka	6.2	7.7	6.8	6.0	3.5	7.6	6.9	4.8
Tajikistan	6.7	7.0	7.8	7.9	3.4	6.5	7.2	5.7
Viet Nam	8.4	8.2	8.5	6.3	5.3	6.8	8.4	5.8
Subtotal							11.6	8.9
Least Affected (10)								
Afghanistan	16.1	8.2	14.2	3.4	20.4	8.2	12.8	11.9
Bangladesh	6.0	6.6	6.4	6.2	5.7	5.8	6.3	6.0
Bhutan	7.5	7.8	12.6	10.8	5.7	7.0	9.3	8.3
Indonesia	5.7	5.5	6.3	6.0	4.6	6.1	5.8	5.3
Kyrgyz Republic	-0.2	3.1	8.5	8.4	2.9	(1.4)	3.8	5.7
Lao PDR	6.8	8.1	7.9	7.2	7.3	7.5	7.6	7.3
Nepal	3.1	3.7	2.8	5.8	3.8	4.0	3.2	4.8
Papua New Guinea	3.9	2.3	7.2	6.6	5.5	7.1	4.5	6.1
Timor-Leste	6.2	(5.9)	9.1	12.2	12.7	9.5	3.1	12.5
Uzbekistan	7.0	7.2	9.5	9.0	8.1	8.5	7.9	8.6
Subtotal							6.1	5.7

( ) = negative.

Sources: Asian Development Bank, *Asian Development Outlook 2011* for gross domestic product (GDP) growth rates; and World Bank database for GDP at constant prices in US$.

GOVERNMENTS' RESPONSE TO THE CRISIS

A. Recent Views on the Role of Fiscal Policy—Review of Literature

1. The use of fiscal policy to manage cyclical fluctuations in aggregate demand diminished after the 1960s. Several factors contributed to this. The ascendency of neoclassical economic thought mainly based on the Ricardian equivalence framework is an important factor.[1] In addition, research findings showed that Keynesian multipliers were much smaller than thought due to leakages from imports, effects of fiscal expansion on exchange rates, crowding of interest-sensitive expenditure, and the impact of higher public debt on interest rates. The lags in taking decisions to formulate and implement fiscal policy and the time needed for the policy impact to propagate in the economy meant that fiscal stimulus could become effective after the recession had bottomed out. This could increase the risk of undesirable pro-cyclical volatility. The prevalence of high inflation and high unemployment in the 1970s raised doubts about the effectiveness of Keynesian approaches. The focus of countercyclical management began to shift toward monetary policy, which could be modulated quickly and the interest rate could influence the aggregate demand in many ways.[2] The fact that fiscal policy is much more susceptible to political constraints than monetary policy may also have helped. Although monetary policy assumed a primary role in managing aggregate demand, fiscal policy continued to make important contributions through automatic stabilizers, particularly in many developed countries.[3]

2. This strategic change in approach to manage business cycles coincided with a significant reduction in volatility in the economic activity of most G7 countries, particularly after the mid-1980s onward.[4] The reduced volatility meant that recessions became less frequent and severe, and it provided prolonged benefits in terms of stable employment and greater certainty about economic activity to firms and households. Three reasons were attributed to the relative stability in the economic activity[5]—structural factors,[6] greater reliance on monetary policy, and good luck. While there is ambiguity about the relative influence of these factors in reducing volatility in inflation and output, some economists assign greater importance to the contribution of monetary policy because of (i) its pervasive effects, some of which tend to be misidentified as exogenous changes in economic structure;[7] and (ii) firm anchoring of inflationary expectations due to clear signals and behavior of central banks.[8]

3. The global economic crisis brought the fiscal policy back to prominence. A number of factors contributed to the process. Monetary policy became ineffective in the developed countries as the policy rates came close to zero in many economies,[9] and the crisis in the

[1] R. Eisner. 1969. Fiscal and Monetary Policy reconsidered. *American Economic Review*. Vol. 59 (5). pp. 897–905. The Ricardian Approach to Budget Deficits. *The Journal of Economic Perspectives*. Vol. 3 (2). pp.37–54.
[2] M. Feldstein. 2009. Rethinking the Role of Fiscal Policy, *Working Paper 14684*. Cambridge MA: National Bureau of Economic Research.
[3] H M Treasury. 2008. *The case for a concerted international fiscal response*. London. p. 11.
[4] For a good review see, J. Stock and M. Watson. 2003. Has the Business Cycle Changed and Why? *Working Paper 9127*. Cambridge MA: National Bureau of Economic Research.
[5] This period is termed by some as the period of “Great Moderation.”
[6] These included changes in economic institutions and business practices, technological process included in the area of information and communications technology, and better management of inventory.
[7] Remarks by the US Federal Reserve Chairman, Ben Bernanke: B.S. Bernanke. 2004. Remarks at the meetings of the Eastern Economic Association, February 20. Washington DC: The Federal Reserve. http://www.federalreserve.gov/boarddocs/speeches/2004/20040220/default.htm
[8] O. Blanchard et al. 2010. Rethinking Macroeconomic Policy. *IMF Staff Position Paper SPN/10/03.* Washington DC: International Monetary Fund. p. 7.
[9] IMF. 2009. *World Economic Outlook: Crisis and Recovery.* Washington DC: International Monetary Fund. p. xviii.

finance sector rendered monetary transmission mechanism rather inefficient.[10] Other key arguments that were made in favor of fiscal policy were (i) the ability of fiscal policy to better target beneficiaries, particularly for transfer payments and employment programs; (ii) the scope to stimulate demand without causing inflation due to emergence of excess capacities created by demand slump; (iii) the reduced likelihood of fiscal policy turning pro-cyclical as the recession is expected to be prolonged; (iv) increased risk averseness would improve the private sector's appetite for government bonds, facilitating government borrowings with lower risk of crowding out; (v) the magnitude of the crisis rendered the existing automatic stabilizers ineffective and necessitated a substantial stimulus; and (vi) fiscal policy provided a diversified set of policy instruments.[11] Notwithstanding these arguments, the limitation of fiscal policy as a stimulus measure and risks of a prolonged fiscal stimulus, particularly in countries with limited fiscal space, were recognized. The G20 leaders' summit in Washington on 15 November 2008 suggested the use of fiscal measures sustainably to stimulate domestic demand. The summit also urged multilateral development banks to support, as needed, the countries with a track record of good macroeconomic policies but whose access to resources to undertake countercyclical policies was constrained by crisis-induced market disruptions.[12]

4. Fiscal policy impact propagates through the multiplier process. Two major leakages that reduce the magnitude of fiscal multipliers are imports and savings. The magnitude of these two is quite large in many Asian countries.[13] Spillovers through international trade could limit the effectiveness of fiscal actions taken by individual countries. Thus, in open economies, the quantum of stimulus needed would be larger to achieve the same magnitude of impact. For this reason, countries with a large foreign trade sector may be reluctant to undertake fiscal stimulus measures, as much of that would spill over to trading partners and widen the trade balance. An advantage of the spillovers is that collective action by a group of countries that have strong trade links would reduce the magnitude of stimulus needed for each one of them. Action by each country would need to be determined based on fiscal sustainability considerations, external imbalances, and strength of automatic stabilizers.[14] A study carried out using the International Monetary Fund's Global Integrated Monetary and Fiscal Model showed that coordinated implementation of fiscal stimulus could have large spillovers through trade. The magnitude of the multiplier impact on each region would depend on the nature of spending. Public investment and targeted fiscal transfers have a larger multiplier impact. And the impact of targeted fiscal transfers was found to be four times larger than the impact of general fiscal transfers in policy simulations.[15]

5. Coordinated fiscal action should be devoid of protectionist tendencies to ensure each country benefits from the stimulus of its trading partners and to allow the trading partners to benefit from own stimulus measures. But achieving such a high level of coordination could be quite difficult. There could be free riders benefiting from the stimulus of their trading partners,

[10] H M Treasury. 2008. *The case for a concerted international fiscal response*. London. p. 17.
[11] Reserve Bank of India. 2010. *Report on Currency and Finance: 2008–09.* Bombay. p.151.
[12] G-20. 2008. Declaration: Summit on Financial Markets and the World Economy (15 November 2008). Washington. http://www.G-20.org/Documents/G-20_summit_declaration.pdf
[13] Asia has high rates of savings. In 2008, the rates of gross domestic savings (among larger countries) were: People's Republic of China (PRC) 51.5%, Malaysia 42.3%, India 32.5%, Thailand 32.5%, Indonesia 31%, Viet Nam 26.6%, Bangladesh 20%, Philippines 19.1%, Sri Lanka 13.9%, and Pakistan 11%. In 2009, external trade as a percentage of GDP among larger Asian countries was: Malaysia 145.4%, Viet Nam 130.7% Thailand 106.6%, Philippines 52.4%, PRC 44.3%, Bangladesh 44.2%, Sri Lanka 41.2% India 36.7%, and Pakistan 34.2%.
[14] A. Spilimbergo et al. 2008. Fiscal Policy for the Crisis. *IMF Staff Position Note: SPN/08/01.* Washington. p. 11.
[15] C. Freedman et al. 2010. Global Effects of Fiscal Stimulus During the Crisis. *Journal of Monetary Economics.* (Vol, 57). pp. 506–526.

which is difficult to police. Consequently, to reduce leakages, countries may resort to protectionist measures as part of their stimulus packages.[16]

6. When will an internationally coordinated fiscal stimulus work? It will work when (i) there is excess capacity and involuntary unemployment created by a fall in effective demand; (ii) fiscal actions do not raise interest rates to financially crowd out private investment either by increasing the risk-free interest rates or enhancing the sovereign default risk premium; (iii) monetary policy becomes an ineffective instrument to stimulate demand due to nominal interest rates hitting the floor; (iv) it will not directly crowd out, at a given present and future interest rates and prices, by displacing private spending/savings by public spending/dis-saving; (v) the households do not save any benefits received from income tax cuts or targeted transfers, which they may do due to uncertainties about future income.[17] Fiscal policy will not work when public debt is unsustainable and the risk premium on interest rates is large; under such circumstances fiscal contraction could be expansionary. Empirical evidence on crowding-out of private investment through interest rates is rather weak in developing countries. Likewise, the conditions needed for Ricardian equivalence to hold are much less likely in developing countries than in advanced economies.[18]

B. Government's Response to the Crisis in the Sample Countries

1. Bangladesh

7. The sharp deceleration of exports in late 2008 and early 2009 raised serious concerns in government about the likely impact of the global economic crisis on Bangladesh's economy and jobs in export industries. Some of these industries are a major source of employment to women. To respond effectively, in April 2009, the government announced a Tk34.2 billion (about $480 million) package to stimulate exports, agriculture production, and the energy sector. The package also enhanced the transfer payments to the poor and provided debt relief to farmers—subsidies to agriculture were raised by Tk15 billion. Another Tk5 billion was given for recapitalizing agricultural loans. This was followed in November 2009 by the second stimulus package of Tk50.5 billion ($705 million) to provide incentives to exporters, subsidies to small and medium-sized enterprises (SMEs), and shipbuilders. In November 2009, there was also a large increase in government salaries that was not part of the fiscal package. The government agreed to a long-standing demand for a pay rise at a cost of Tk26 billion. The government also allocated Tk25 billion in the budget for fiscal year (FY) 2010 to boost investments in infrastructure through public–private partnerships. The stimulus also proposed to increase public expenditure on antipoverty programs by 25% in FY2010 and about 20% in FY2011 (Table A3.1). The fiscal deficit was projected to increase by 0.5 percentage points to 5% of gross domestic product (GDP) in FY 2010 and remain at that level the next fiscal year. The stimulus entailed a 57% increase in the annual development plan in FY2010 and a further 50% increase in FY2011. The fiscal package announced by the government was adequate to mitigate the adverse impact of the crisis and to plug the transmission routes. The package sought to support the sectors that were either affected or feared to be affected by the crisis—exports, agriculture, and power—as well as the poor and vulnerable people.

[16] Commission on Growth and Development. 2010. *Post Crisis Growth in Developing Countries: A Special Report of the Commission on Growth and Development on the Implications of the 2008 Financial Crisis.* Washington DC: The World Bank. pp. 32–33.
[17] W.H. Buiter. 2010. The Limits to Fiscal Deficit. *Oxford Review of Economic Policy*. (Vol. 26, No. 1). pp. 49–70
[18] R. Hemming, M. Kell, and S. Mahfouz. 2002. The Effects of Fiscal Policy in Stimulating Economic Activity—A Review of Literature. *IMF Staff Working Paper WP/02/208.* Washington DC: International Monetary Fund.

Table A3.1: Fiscal Summary
(% of GDP)

Item	2008/09	2009/10 (Budget)	2009/10 (Actual)	2010/11 (Budget)
Revenue (net of grants)	10.5	11.5	10.9	11.8
Revenue (including grants)	10.8	12.2	11.5	12.4
Taxes	8.6	9.2	9.0	9.7
Grants	0.3	0.7	0.5	0.6
Expenditure	14.5	16.4	14.6	16.8
Development expenditure	3.5	5.0	4.1	5.4
Annual Development Plan	3.2	4.4	3.7	4.9
Non development expenditure	11.0	11.5	10.6	11.4
Salaries and allowances	2.2	2.4	2.3	2.6
Subsidies	1.2	1.0	1.0	1.0
Antipoverty expenditures[a]	1.5	1.6	1.6	1.7
Fiscal deficit (including grants)	(3.7)	(4.2)	(3.2)	(4.4)
Fiscal deficit	(4.0)	(5.0)	(3.7)	(5.0)
Financing of fiscal deficit	3.7	4.2	3.1	4.4
Domestic borrowing	3.3	3.0	2.2	3.0
Banks	2.2	2.4	(0.3)	2.0
Others	1.0	0.5	2.5	1.0
Foreign aid (net)	0.4	1.3	0.9	1.4
GDP current prices	100.0	100.0	100.0	100.0

GDP = gross domestic product, ( ) = negative.
[a] Data shown under 2009/10 (actual) relates to revised estimates.
Source: Bangladesh Bank.

8. However, the allocations remained unspent because of weak implementation capacity. The shortfall in spending was not due to the lack of resources and there was no shortage of funds. In fact, public spending in FY2010, which overlapped with the early stage of the post-crisis period, turned out to be much less than budgeted. As a result, the fiscal deficit in FY2010 was about 3.2% of GDP, even smaller than the deficit of 3.7% of GDP in FY2009—before the crisis. The shortfall in spending was equally present in developmental and non-developmental expenditure, though there was not much shortfall in spending on antipoverty schemes. Compared with FY2009, spending on developmental projects and antipoverty schemes was higher in absolute terms and as a percentage of GDP. There has also been a significant improvement in revenue effort in FY2010 despite a slowdown in economic growth—the ratio of revenue to GDP improved by 0.4% points. Thus in aggregate terms, while the government protected the planned increase in antipoverty spending, there was a significant slippage in the planned stimulus expenditure. The shortfall in planned expenditure resulted in a lower-than-projected fiscal deficit, which was exceeded by the government's net borrowings in FY2010. As of October 2009, a few weeks before the entire $500 million of the CSF was disbursed, Bangladesh budget had an overall budget surplus (revenue minus total expenditure) of taka 45.6 billion (equivalent to about $637 million) or 0.66% of GDP.[19]

[19] Government of Bangladesh. (2010). *Monthly Report on Fiscal Position (October FY2009-2010).* Dhaka. Table e1.

2. Kazakhstan

9. The government took a wide range of measures—fiscal policy, monetary policy, and finance sector regulation—to mitigate the impact of the economic crisis and to protect the economy from such events in the future. The government is estimated to have spent $26.5 billion on fiscal, quasi-fiscal, and other stimulus measures during 2008–2010. In 2009 alone, the government is estimated to have spent about $16 billion.[20] Due to its stimulus measures, the overall fiscal surplus narrowed from 4.7% of GDP in 2007 to 1.1% of GDP in 2008. The non-oil fiscal deficit ballooned from 4.8% to 11.3% of GDP. Fiscal policy continued to be expansionary in 2009 and 2010. As a result of the tax cuts (aimed at stimulating economic activity), a decline in oil revenue and an increase in social expenditure, the overall fiscal balance recorded a deficit of 1.5% of GDP in 2009. The overall fiscal deficit widened further to more than 3% of GDP in 2010, reflecting an increase in social expenditure in 2010.

10. Kazakhstan's banking sector was overextended and overly dependent on external funds, and was experiencing stress since 2004–2005. Though there were clear early indications of an impending crisis in the finance sector, the government did not respond effectively till November 2007. As conditions in international financial markets tightened, it became difficult for banks to borrow abroad and to refinance external debt, which pushed Kazakhstan into crisis in the second half of 2007, earlier than any other developing member country (DMC). The government prepared the first anti-crisis action plan in late 2007 primarily to support the banking sector, which aimed to increase funding of banks from domestic sources, curtail their external borrowing, and preserve stability of financial institutions.

11. The government's response to the global economic crisis was swift and decisive. It announced a $10 billion joint action plan to (i) stabilize the finance sector, (ii) revive the real-estate market, (iii) support SMEs, (iv) develop the agro-industrial sector, and (v) implement innovative, industrial, and infrastructure projects.[21] About 90% of the allocation made under the November 2008 plan was disbursed by 15 December 2010.

12. The government took several steps to strengthen banking supervision and regulation. In 2009, it introduced a new requirement of 20% provisioning for all loans issued in foreign currency to an unhedged borrower.[22] The government also strengthened the deposit insurance scheme[23] and enacted a law to help stabilize the financial system.[24] The law gave the government the powers to take virtual control of a problem bank even without the consent of the bank and its shareholders. In addition, the law introduced an early-warning system based on a set of indicators pertaining to the liquidity position, risk profile, and capital adequacy of a bank. The law empowers the regulators to intervene before violation of prudential norms occurs.[25] The

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[20] Rakurs Center for Economic Analysis. 2010. "Fiscal Anti-Crisis Package of the Government of Kazakhstan in 2009. Part 1: Object, Amounts, Beneficiaries." Macroeconomic Notes No 1.6, 11 March 2010.

[21] The Government of Kazakhstan. 2008. *Plan of Joint Actions of the Government, National Bank and Agency on Regulation and Supervision of Financial Markets and Financial Institutions of the Republic of Kazakhstan to Stabilize the Economy and the Financial System 2009-2010*. Approved by Resolution No. 1085 of the Government of Kazakhstan dated 25 November 2008. Astana.

[22] World Bank. 2010. Program Document for a Proposed Loan in the Amount of US$1 Billion to the Republic of Kazakhstan for a Development Policy Loan. *Report No. 53575-KZ*. Available at www.worldbank.org.

[23] The capital base of the Kazakhstan Deposit Insurance Fund was increased fourfold (to 100 billion tenge). The coverage ceiling on individuals' deposits was raised from T0.7 million (about $4,700) to T5.0 million ($33,900) in 2009.

[24] Government of Kazakhstan. 2008. *The Law of the Republic of Kazakhstan on Making Amendments to Certain Legal Acts of the Republic of Kazakhstan Relating to Stability of the Financial* System. Astana.

[25] World Bank. 2010. *Program Document for a Proposed Loan in the Amount of US$1 Billion to the Republic of Kazakhstan for a Development Policy Loan*. Report No. 53575-KZ. Available at www.worldbank.org.

law also gives the regulators the power to take actions against large shareholders that are causing or can potentially cause harm to a bank.[26]

Table A3.2: Employment Generation Program: Fund Disbursements, 2009–2010
(billion tenge)

Output	Allocation	Execution	Utilization %
Public Works	168.93	168.23	99.96
	137.36	136.81	99.59
Staff Retraining	9.74	6.56	67.39
	7.48	7.42	99.13
Jobs for Socially	4.4	4.4	100
Vulnerable	3.11	3.07	98.76
	3.2	3.2	100
Internships	3.18	3.21	101.20
	186.27	182.3	98.25
Total	151.13	150.51	99.59
Total 2009–2010	**337.40**	**332.81**	**98.64**

Note: Public works include investment projects for road construction and public facilities repair.
Upper lines: 2009. Lower lines: 2010.
Sources: 2009 data – ADB. 2010. *Completion Report: Republic of Kazakhstan: Kazakhstan Countercyclical Support Loan*. Manila.
2010 data – Ministry of Labor and Social Protection (data were provided to the independent evaluation mission as of 5 January 2011).

13. In March 2009, the government also announced an employment generation program (EGP) for 2009–2010 to mitigate the impact of the economic slowdown.[27] An allocation of about $2.3 billion (T337.4 billion) was provided for 2009 and 2010. The program had four outputs: (i) public works, (ii) staff retraining, (iii) job creation for the socially vulnerable, and (iv) internships for the young. Most of the EGP funds were allocated to public works, which included investment projects for road construction and repair of public facilities. The funds were almost fully utilized, and the program created 392,000 jobs and trained 113,500 people in 2009–2010.

3. Indonesia

14. The government announced a fiscal stimulus of Rp71.3 trillion, or 1.4% of annual GDP, in the form of tax relief and expansion of government expenditure (Table A3.3). On the expenditure side, the focus was on (i) temporary unconditional cash transfer to support the poor and near poor, (ii) subsidies on refined oil, cooking oil, and electricity rates, and (iii) infrastructure spending to create jobs for the unskilled and uneducated workers. Most of the fiscal stimulus package contained temporary programs that easily terminated once the economy recovered. Tax cuts constituted the major component of the stimulus, amounting to Rp56.3 trillion or 0.96% of GDP.

15. The tax cuts aimed to stimulate aggregate demand through higher household and business spending thanks to higher disposable income and after-tax profits; and provide incentives for better compliance with tax regulations to widen the tax net. There were two main components in tax cuts: (i) direct tax relief to the tune of Rp43 trillion (0.8% of GDP) for households and the corporate sector and (ii) Rp13.3 trillion in tax relief for the corporate sector

[26] Baker & McKenzie. 2009. "Kazakhstan Takes Measures to Strengthen Financial Stability." Legal Alert. 28 January 2009. Available at www.taalo-bakernet.com/e.
[27] Road Map for Recovery through Job Creation of the Government. March 2009.

in the form of value-added tax exemptions on oil and gas exploration, exemption or relief of import taxes on some raw materials and capital goods for export products, and payroll tax concessions. The aim of the tax relief was to enhance voluntary compliance.

16. The expenditure component of the fiscal stimulus was comparatively small—Rp15.0 trillion or 0.44% of GDP. The public expenditure package included (i) a 15% salary increase to civil servants, the armed forces, and the police; (ii) unconditional cash transfers of Rp100,000 (about $10) per month per household to 18.2 million poor and near-poor households over 2 months; and (iii) more spending on labor-intensive infrastructure projects. Households eligible for unconditional cash transfers were to be identified by community leaders based on socioeconomic surveys. Labor-intensive public projects covered rural infrastructure, drinking water, transportation, housing for low-income groups, public health, staff training, food storage in producing areas, and community development. The multiplier impact of public spending was expected to be strong due to high marginal propensity to consume of the poor households who benefit from these outlays and low import content in the consumption.

Table A3.3: Indonesia's Fiscal Stimulus, 2009
(Rp trillion)

Item	Allocation
A. Tax Savings	**43.0**
1. Reduction in Income Tax Rates:	32.0
Lower Corporate Tax Rate	*18.5*
Lower Personal Income Tax Rate	*13.5*
2. Raise in income tax limit to Rp15.8 million	11.0
B. Tax/Import Duty Subsidies for Business/Targeted Household	**13.3**
1. VAT on oil and gas exploration, cooking oil	3.5
2. Import duties on raw materials and capital goods	2.5
3. Payroll tax	6.5
4. Geothermal tax	0.8
C. Pro-Business/Jobs Subsidies + Budget Expenditures	**15.0**
1.Reduced price for automotive diesel	2.8
2.Discounted electricity billing rates for industrial users	1.4
3.Expenditure on infrastructure expenditures, subsidies	10.2
4.Upscaling of Community Block Grants (PNPM)	0.6
Total Stimulus	**71.3**

Source: Republic Indonesia. *Nota Keuangan dan RAPBN Perubahan,* Tahun Anggaran 2009.

17. The global economic crisis had tightened international liquidity, particularly in US dollars. To ease liquidity, the Bank of Indonesia (i) reduced the policy rate; (ii) cut the minimum reserve requirement for both rupiah and foreign currency deposits; (iii) introduced new credit lines through repos; (iv) expanded foreign exchange swap facilities, (v) made exporters to hold export proceeds and foreign currency deposits at domestic banks; (vi) asked state-owned enterprises to repatriate their export proceeds and transfer their foreign currency deposits to domestic banks, and (vii) obtained currency swap facilities from the People's Republic of China and Japan, and required documentation for underlying transactions of more than $100,000. To deal with the sudden increase in short-term capital inflows from the third quarter of 2009, the Bank of Indonesia (i) sterilized part of it and accumulated foreign exchange reserves, (ii) allowed moderate appreciation of the rupiah, and (iii) adopted market-based capital controls.

4. Philippines

18. The Philippines had considerably more fiscal space when the global economic crisis hit the economy. Fiscal deficits were chronic during the early part of the millennium due to weak tax administration, a narrow tax base, complicated tax system, high debt burden (78% of GDP in 2004), and large untargeted subsidies. Reforms to value-added taxation and expenditure rationalization measures helped consolidate the fiscal system. Public debt declined to about 58% of GDP in 2008, and fiscal deficit dropped sharply (0.2% of GDP in 2007 and 0.9% of GDP in 2008). This provided adequate space for the government to raise the fiscal deficit to 3.9% of GDP to combat the crisis. The government responded to the global economic crisis through (i) increased infrastructure spending, (ii) more spending on job retraining and livelihood to provide alternatives to affected domestic and overseas workers, (iii) enhanced regulatory measures to protect the stability of the financial system, and (iv) injection of adequate liquidity to sustain the stimulus effort. The government sought to protect the vulnerable population by strengthening the implementation of various social protection programs, particularly the conditional cash transfer program. It introduced a P330 billion stimulus package (4.3% of GDP) to protect the poor, the workers in export industries, and returning overseas workers. Measures were introduced to sharpen the targeting of social safety-net spending. In addition, the government also front-loaded budget releases to help implementing agencies to accelerate public spending on infrastructure projects. The government allocated an incremental amount of P160 billion to 5,000 small public investment projects to quickly create jobs, including in rural areas. Government financial institutions added P100 billion outside the budget to finance large infrastructure projects. The conditional cash transfers and other social protection programs, on the other hand, were pro-poor and were effectively directed through a non-political household targeting system and systematic surveillance of the affected sectors.

19. Coordination between the fiscal and monetary authorities was strong. As the fiscal side implemented the “stimulus measures”, the monetary authorities sought to ensure stability of the financial system. Weakening global economic activity and easing commodity prices in 2008 reduced the pressure on inflation, particularly in food and fuel prices. As a result, the Central Bank of the Philippines found enough latitude to reduce policy rates and inject liquidity into the financial markets by reducing commercial bank reserve requirements. ADB actively consulted with other development partner on its intended fiscal support lending. However, ADB and the World Bank had somewhat different opinions on the progress of the ongoing structural reforms in fiscal management areas, which they both had assisted.

5. Tajikistan

20. Tajikistan is highly reliant on inward remittances from its nearly 1 million nationals working abroad, whose remittances account for up to 50% of GDP. Recession in G3 economies and other countries, and especially in Russia, resulted in a loss of jobs for its nationals and steep decline in their remittances to Tajikistan. The government’s response to the crisis was severely constrained by the limited fiscal space created by high public debt and the tight constraints on financing. In December 2008, the government announced an anti-crisis action plan (ACAP) to (i) develop the SMEs and support other economic sectors; and (ii) assist the unemployed, particularly the returned migrant workers, in finding jobs.[28]. The government envisaged cuts in budgetary expenditures (with the exception of the nondiscretionary expenditures and social safety net) to limit the fiscal deficit. However, when the revenues fell well below the target in early 2009 because of declines in foreign trade and the slowdown in

[28] Titled *The Action Plan on Preventing Financial Crisis in Tajikistan*.

economic growth, and lowering of value-added tax rate from 20% to 18%, the government revised the 2009 budget and announced a revised stimulus plan.[29] To control the fiscal deficit, the revised plan further cut expenditures on capital works and discretionary spending but protected allocations for social safety-net and nondiscretionary items. Yet, the financing gap was larger than in the original plan, which prompted the government to seek budget support from ADB and other development partners.

21. Overall, tax revenues fell from 18.7% of GDP in 2008 to 17.6% of GDP in 2009, with value-added tax revenues decreasing from 8.9% of GDP to 7.4% during that period. Yet total revenue and grants (as a percentage of GDP) increased in 2009 due to grant-based budget support provided by ADB ($40 million), the European Union ($12 million), and the World Bank ($20 million). Total expenditure and net lending (as a percentage of GDP) also increased in 2009 due to an increase in current expenditures. Compensation to public sector employees and transfers to households helped soften adverse impacts of the global economic crisis on living standards. Capital expenditure decreased from 14.5% of GDP in 2008 to 13.3% in 2009 as externally financed public investments fell. The overall fiscal deficit narrowed from 5.5% of GDP in 2008 to 5.4% of GDP in 2009. Overall, fiscal policy provided a modest stimulus to the economy in 2009.

22. Apart from pursuing a market-based exchange rate policy, the central bank provided substantial support to improving liquidity in commercial banks, and intensified their prudential regulation and supervision in late 2008 and 2009 to preserve stability in the finance sector. However, the central bank faced difficulties in injecting liquidity into the banking system because of weaknesses in its balance sheet. The government initiated steps to improve the governance of the central bank and strengthen its balance sheet, as part of the program supported by the International Monetary Fund. In June 2009, the central bank closed its department responsible for financing the cotton sector as part of the government's policy to resolve the so-called cotton debt problem. The government envisaged the write-off of $550 million in loans to cotton farmers and the repayment to the central bank of $154 million in debt by cotton investors.[30] This policy reduced the central bank's claims on the cotton sector by 38.2% in 2009 and impaired the growth of reserve money and broad money.

6. Viet Nam

23. Viet Nam announced its D145.6 trillion (about $8 billion, or 8.7% of GDP) fiscal stimulus package in December 2008. The package had four components: interest subsidies, public investment, tax breaks, and social spending (Table A3.4). The significant increase in spending and a fall in revenue contributed to the widening of the fiscal deficit from 0.9% of GDP in 2008 to about 8.9% of GDP in 2009. The government provided subsidy on interest rates to labor-intensive firms for both working capital loans and investment loans to eligible enterprises, to partially defray the higher cost of borrowing caused by the global economic crisis. The purpose of the scheme was to protect employment. The package envisaged spending of D60.8 trillion on those high-priority public investment projects that could be implemented sooner. The program

[29] Ministry of Finance of the Republic of Tajikistan. 2010. Budget Performance Report for January–December 2009 (available at www. www.minfin.tj) and ADB. 2009. Report and Recommendation of the President on the Proposed Asian Development Fund Grant to the Republic of Tajikistan for the Crisis Recovery Support Program (available at www.adb.org).

[30] IMF. 2010. Republic of Tajikistan: First and Second Review Under the Three-Year Arrangement Under the Extended Credit Facility, Request for Waiver of Performance Criteria, and Request for Augmentation of the Arrangement. Available at www.imf.org.

also envisaged issuance of bonds for D10 trillion to expedite implementation of labor-intensive, high-priority projects.

Table A3.4: Viet Nam's Fiscal Stimulus Package in 2009 (in billion Viet Nam Dong)

Item	Program	Estimated Disbursement in 2009	Utilization (%)
Interest rate subsidy and credit guarantees	17,000	10,000	59
Public investment expenditure	90,800	60,800	67
Various items [a]	70,800	50,800	72
Issuance of additional bonds	20,000	10,000	50
Exemption, reduction, and deferral of taxes	28,000	20,000	71
Other expenditures to ensure social security	9,800	9,800	100
Total	**145,600**	**100,600**	**69**

[a] Including advancement of budget for investment projects of high importance, carried-over capital expenditure from 2008, investment from state budget.
Source: Viet Nam Ministry of Planning and Investment (2009).

24. Tax incentives announced by the government covered both households and businesses, entailing a tax expenditure of D20 trillion in 2009. Corporate tax cuts were the largest component, entailing a tax expenditure of D9.9 trillion. Cuts in individual income taxes and value-added tax rates account for another D9 trillion. The government intended these measures to increase disposable income and stimulate demand in the economy. In the absence of a national social insurance program that could be used as a countercyclical support facility, the government focused on investment spending in its stimulus package. It allocated a relatively modest amount of D9.8 trillion in the stimulus package to the social safety net in 2009.

ADB'S RESPONSE TO THE CRISIS

Table A4.1 List of ADB Research and Knowledge Products Related to the Crisis by its Knowledge departments, 2008–2010

Number	Title of Publication	Date of Publication
ADBI DISCUSSION/WORKING PAPER SERIES		
No. 120	Global and Regional Shocks: Challenges to Asian Economies *Kwanho Shin*	November 2008
No. 121	Crises, Capital Controls, and Financial Integration *Yeyati, Schmukler, Van Horen*	November 2008
No. 142	America's Financial Crisis: The End of an Era *Barry Bosworth, Aaron Flaaen*	July 2009
No. 146	What Is the Impact of the Global Financial Crisis on the Banking System in East Asia? *Michael Pomerleano*	August 2009
No. 147	The Republic of Korea's Economy in the Swirl of Global Crisis *Dong Chul Cho*	August 2009
No. 148	Malaysia and the Global Crisis: Impact, Response, Rebalancing Strategies *Shankaran Nambiar*	August 2009
No. 149	Malaysia and the Global Crisis: Impact, Response, Rebalancing Strategies *Ira S. Titiheruw, Raymond Atje*	August 2009
No. 150	Recessions and Recoveries in Asia: What Can the Past Teach Us about the Present Recession? *Souvik Gupta, Jacques Miniane*	September 2009
No. 152	The People's Republic of China-Japan-United States – Integration Amid Global Rebalancing: A Computable General Equilibrium Analysis *Masahiro Kawai, Fan Zhai*	October 2009
No. 153	Why was Japan Hit So Hard by the Global Financial Crisis? *Masahiro Kawai, Shinji Takagi*	October 2009
No. 154	Thailand's Growth Rebalancing *Somchai Jitsuchon, Chalongphob Sussangkarn*	October 2009
No. 164	The Global Economic Crisis: Impact on India and Policy Responses *Rajiv Kumar and Pankaj Vashisht*	November 2009
No. 187	Financial Crisis, Trade Finance, and SMEs: Case of Central Asia *Gloria O. Pasadilla*	January 2010
No. 188	The Financial Crisis and the Regulation of Credit Rating Agencies: A European Banking Perspective *Siegfried Utzig*	January 2010
No .189	Regulating Systemic Risk *Masahiro Kawai and Michael Pomerleano*	January 2010
No. 192	International Reserves and Swap Lines in Times of Financial Distress: Overview and Interpretations *Joshua Aizenman*	February 2010
No. 194	How Much Do We Know about the Impact of Economic Downturn on Employment of Migrants? *Xin Meng, Sherry Tao Kong, and Dandan Zhang*	February 2010
No. 195	Monetary Policy Strategies in Asia and the Pacific: What Way Forward? *Andrew Filardo and Hans Genberg*	February 2010
No. 196	The Role of State Intervention in the Financial Sector: Crisis Prevention, Containment, and Resolution *Yoon Je Cho*	February 2010
No. 198	The Global Economic Crisis: An Opportunity for Strengthening Asia's Social Protection Systems? *Mukul G. Asher*	February 2010
No. 199	The Financial Crisis – A Wake-up Call for Strengthening Regional Monitoring of Financial Markets and Regional Coordination of Financial Sector Policies?	February 2010

Number	Title of Publication	Date of Publication
	Adalbert Winkler	
No. 201	Regional Monitoring of Capital Flows and Coordination of Financial Regulation: Stakes and Options for Asia *Michael Plummer*	February 2010
No. 203	Securitized Products, Financial Regulation, and Systemic Risk *Mariko Fujii*	March 2010
No. 204	Asia Confronts the Impossible Trinity *Ila Patnaik and Ajay Shah*	March 2010
No. 206	Applying the Lessons of Asia: The IMF's Crisis Management Strategy in 2008 *Shinji Takagi*	March 2010
No. 208	Education Impact Study: The Global Recession and the Capacity of Colleges and Universities to Serve Vulnerable Populations in Asia *Gerard Postiglione*	March 2010
No. 213	The Financial Crisis, Rethinking of the Global Financial Architecture and the Trilemma *Hiro Ito, Joshua Aizenman, and Menzie D. Chinn*	April 2010
No. 214	Korea's Experience with Unemployment Insurance in the 1998 Asian financial crisis and Its Adjustments in the Current Crisis *Sung Teak Kim*	April 2010
No. 224	Rebalancing Growth in the Republic of Korea *Joonkyung Ha, Jong-Wha Lee and Lea Sumulong*	July 2010
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	Regional Economic and Financial Monitoring (Conducted at various DMCs listed in the next column) *Lei Lei Song*	3-28 May 2010, Seoul, Korea 6 Sep–1 Oct, 2010 Philippines

ADB = Asian Development Bank, ADBI = ADB Institute, ERD = Economic Research Department, OREI = Office of Regional Economic Integration.
Sources: ADBI Three-Year Rolling Work Program 2009–2011, 2010–2012, and 2011–2013. ADB Office of Regional Economic Integration. ADB Economic Research Department.

Table A4.2: Trend in ADB Operations, 2000–2010
($ million)

	A - Sovereign			B - Nonsovereign								
Year	**Loans[a]**	**Grants[b]**	**Total**	**Loans**	**Equity Facility**	**B Loan**	**Guaran-tees**	**Total**	**Total (A + B)**	**Trade Finance Facility**	**Total ADB Assistance[c]**	**Cofinancing[d]**
2000	5431	27	**5458**	152	78	45	122	397	**5854**	0	**5854**	2885
2001	5301	94	**5395**	38	30	0	0	68	**5463**	0	**5463**	1322
2002	5548	177	**5725**	110	26	0	60	196	**5921**	0	**5921**	2713
2003	5918	454	**6372**	167	36	170	170	543	**6915**	0	**6915**	789
2004	4947	417	**5364**	93	164	0	10	267	**5631**	0	**5631**	406
2005	5248	1015	**6263**	513	197	0	68	778	**7041**	0	**7041**	357
2006	6814	449	**7263**	450	231	530	125	1335	**8598**	0	**8598**	891
2007	8865	710	**9575**	650	80	200	251	1181	**10756**	0	**10756**	332
2008	8602	897	**9499**	1521	123	425	10	2079	**11578**	190	**11768**	1110
2009	12778	1128	**13906**	438	220	276	0	934	**14840**	633	**15473**	3141
2010	10410	1157	**11567**	1053	243	320	550	2166	**13732**	1223	**14955**	3349

Notes:
[a] Total Ordinary Capital Resources and Asian Development Fund loans.
[b] Includes ADF, Special Funds, Japan Fund for Poverty Reduction, Japan Fund for Information and Communication Technology and other sources and Technical Assistance.
[c] Sum of total sovereign, nonsovereign and trade finance facility. According to the Private Sector Operations Department's (PSOD) data total Trade Finance Program(TFP) assistance in 2009 was $633 million, not $850 reported in COSO data base. PSOD also provides TFP data for 2008.
[d] Excludes syndications which are shown as B loans.

Source: The *Statement of the Asian Development Bank Operations* (various issues) provided by COSO. The data is compiled from the latest issues of the source since the figures tend to differ in different issues.

Table A4.3: Crisis-Response Operations

	Country	Loan Number	Project Name	Type/ Modality	Fund Type	Approval Date	Total Amount ($ million)
1	ARM	2529/ 2530	Crisis Recovery Support Program	Program	ADF	06-Jul-09	80.0
2	BAN	2569	Countercyclical Support Facility	Program	OCR	13-Oct-09	500.0
3	COO	2565	Economic Recovery Support Program (Subprogram 1)	Program	OCR	13-Oct-09	10.0
4	GEO	2531/ 2532	Growth Recovery Support Program	Program	ADF	06-Jul-09	80.0
5	INO	2521	Public Expenditure Support Facility Program[\a]	Program	OCR	03-Jun-09	1,000.0
6	INO	2563	Indonesia Countercyclical Support	Program	OCR	07-Oct-09	500.0
7	INO	2575	Rural Infrastructure Support to the PNPM Mandiri Project II	Project	OCR	12-Nov-09	84.2
8	KAZ	2543	Kazakhstan Countercyclical Support Loan	Program	OCR	10-Sep-09	500.0
9	LAO	0164	Private Sector and Small and Medium-sized Enterprises Development – Subprogram 2	Program	ADF	01-Oct-09	15.0
10	MON	2523	Social Sectors Support Program	Program	ADF	24-Jun-09	43.1
11	MON	0158	Education for the Poor: Financial Crisis Response Project	Project	ADF	18-Sep-09	17.0
12	PAK	2524/ 2525	Accelerating Economic Transformation Program (Subprogram 2)	Program	ADF/ OCR	25-Jun-09	500.0
13	PHI	2538	Philippines Countercyclical Support Loan	Program	OCR	24-Aug-09	500.0
14	PHI	2545	Development Policy Support Program - Subprogram 3	Program	OCR	15-Sep-09	250.0
15	SOL	0175	Second Road Improvement Project	Project	ADF	12-Nov-09	15.0
16	TAJ	0152	Crisis Recovery Support Program	Program	ADF	06-Jul-09	40.0
17	TIM	0180	Road Network Development Sector Project	Project	ADF	20-Nov-09	46.0
18	TON	0185	Economic Support Program	Program	ADF	03-Dec-09	10.0
19	VIE	2544	Viet Nam Countercyclical Support	Program	OCR	15-Sep-09	500.0
20	GEO	2664	Social Services Delivery Program	Program	OCR	21-Sep-10	100.0
21	IND	2617	Micro, Small, and Medium Enterprise Development Project	Project	OCR	26-Feb-10	50.0
22	SOL	0197	Economic Recovery Support Program (Subprogram 1)	Program	ADF	16-Mar-10	5.0
23	SRI	2626	Conflict-Affected Region Emergency Project	Project	OCR	15-Apr-10	150.0
24	MLD	2597	Economic Recovery Program	Program	ADF	9-Dec-09	35.0
			TOTAL				**5,030.3**

ADF= Asian Development fund, ARM = Armenia, BAN = Bangladesh, COO = Cook Islands, GEO = Georgia, INO = Indonesia, IND = India, KAZ = Kazakhstan, LAO = Lao People's Democratic Republic, MLD = Maldives, MON = Mongolia, OCR= ordinary capital resources, PAK = Pakistan, PHI = Philippines, SOL = Solomon Islands, TAJ = Tajikistan, TIM = Timor Leste, TON = Tonga, VIE = Viet Nam, SRI = Sri Lanka.
Source: Prepared from the list of crisis-response loans identified by ADB at www.adb.org

Table A4.4: Developing Member Countries' Growth in ADB's Crisis Assistance, 2008–2010

Developing Member Country Grouping	Percentage Share in GDP (2009)	Percentage Change in GDP Growth Rate	Percentage Growth in Assistance[a]	Crisis Response ($ million)[b]	Percentage Share in Crisis Related Assistance[b]
Severely Affected	10.1%	(78.9)	24.0	2,150.1	42.6%
Moderately Affected[c]	81.9%	(27.1)	27.0	740.0	14.7%
Least Affected	8.0%	(7.0)	59.4	2,155.2	42.7%

GDP = gross domestic product, ( ) = negative.

[a] Includes all loans and grants from ordinary capital resources and the Asian Development Fund, including funds from other sources; 2009–2010 average assistance vs. 2008.

[b] Covers the 24 loans and grants classified as crisis-response assistance and approved in 2008–2010, as in Appendix 4, Table A4.3.

[c] Total gross domestic product includes figures for the People's Republic of China and India.

Table A4.5: Disbursements and Net Resource Transfers to Developing Member Countries, 2000–2010
($ million)

	Sovereign		Nonsovereign			
Year	Disbursement	Net Transfer of Resources	Disbursement	Net Transfer of Resources	Total Disbursement	Total Net Transfers
2000	3958	41	61	(28)	4019	(13)
2001	3823	500	51	(31)	3874	469
2002	4147	(1343)	55	(20)	4202	(1363)
2003	3703	(5337)	113	41	3816	(5296)
2004	3454	(2074)	109	3	3563	(2071)
2005	4605	(472)	204	114	4809	(358)
2006	5553	2121	359	198	5912	2319
2007	6554	3084	606	315	7159	3399
2008	8228	4235	726	316	8954	4551
2009	10131	6254	507	204	10639	6458
2010	7303	3372	865	300	8168	3672

( ) = negative.
Notes: Loans and grants from ordinary capital resources and Asian Development Fund and special funds.
Source: Controller's Department.

Table A4.6: Assistance[a] to Borrowing Developing Member Countries
($ million)

Developing Member Countries	2007	2008	2009	2010
Severely Affected (20)	**2,549**	**2,629**	**3,637**	**2,868**
Armenia	67	17	140	170
Azerbaijan	200	215	75	0
Cambodia	74	91	180	161
Cook Islands	0	16	10	1
Fiji Islands	0	0	67	0
Georgia	0	110	229	335
Kazakhstan	0	340	687	606
Kiribati	0	0	0	12
Maldives	5	8	37	0
Marshall Islands, Rep. of	0	0	0	12
Micronesia, Fed. States of	0	1	0	0
Mongolia	20	82	94	103
Pakistan	1,527	1,090	940	515
Palau, Rep. of	0	0	0	16
Philippines	593	621	1,061	600
Samoa	56	5	1	16
Solomon Islands	9	19	29	18
Thailand	0	0	77	302
Tonga	0	11	10	1
Tuvalu	0	3	0	0
Moderately Affected (5)	**4,388**	**4,317**	**5,820**	**5,149**
China, People's Rep. of	1,147	1,532	1,772	1,339
India	1,232	1,778	1,713	2,126
Sri Lanka	448	177	344	461
Tajikistan	95	61	62	122
Viet Nam	1,468	770	1,929	1,101
Least Affected (10)	**2,600**	**2,464**	**4,434**	**3,446**
Afghanistan	189	266	336	352
Bangladesh	966	611	1,086	1,249
Bhutan	22	106	39	28
Indonesia	950	1,010	2,189	493
Kyrgyz Republic	69	65	80	168
Lao People's Dem. Rep.	60	12	127	152
Nepal	111	159	345	274
Papua New Guinea	102	100	122	76
Timor-Leste, Dem. Rep. of	6	0	49	0
Uzbekistan	126	135	60	655
Total (with China & India)	**9,538**	**9,411**	**13,892**	**11,462**
Total (without China & India)	**7,159**	**6,101**	**10,407**	**7,998**

[a] Includes all sovereign loans and grants from ordinary capital resources, Asian Development Fund, and other Special Fund sources; excludes regional loans and grants.
Source: Central Operations Services Office.

Table A4.7: Total Disbursements[a] to Borrowing Developing Member Countries
($ million)

Developing Member Countries	2007	2008	2009	2010
Severely Affected (20)	**1,670**	**3,106**	**3,464**	**1,630**
Armenia	0	8	119	47
Azerbaijan	59	21	59	47
Cambodia	64	145	83	71
Cook Islands	0	1	0	11
Fiji Islands	13	10	5	17
Georgia	25	70	111	163
Kazakhstan	51	8	543	99
Kiribati	0	0	0	0
Maldives	10	7	12	29
Marshall Islands, Rep. of	0	0	0	10
Micronesia, Fed. States of	4	4	1	1
Mongolia	24	35	80	33
Pakistan	992	1,939	1,116	908
Palau, Rep. of	0	1	2	3
Philippines	419	853	1,320	114
Samoa	1	3	10	28
Solomon Islands	4	0	1	10
Thailand	3	0	3	32
Tonga	0	1	1	6
Tuvalu	1	1	2	0
Moderately Affected (5)	**3,272**	**3,689**	**4,606**	**4,133**
China, People's Rep. of	1,260	1,358	1,500	1,472
India	1,571	1,702	1,572	1,863
Sri Lanka	169	302	294	335
Tajikistan	38	52	111	50
Viet Nam	233	275	1,129	414
Least Affected (10)	**2,137**	**2,095**	**2,532**	**2,223**
Afghanistan	146	89	146	246
Bangladesh	346	617	1,069	471
Bhutan	9	7	36	59
Indonesia	1,324	1,061	799	1,133
Kyrgyz Republic	33	49	45	28
Lao People's Dem. Rep.	95	63	70	59
Nepal	102	133	200	111
Papua New Guinea	29	21	38	32
Timor-Leste, Dem. Rep. of	0	5	3	2
Uzbekistan	51	49	126	82
Total (with China & India)	**7,078**	**8,890**	**10,602**	**7,985**
Total (without China & India)	**4,247**	**5,830**	**7,530**	**4,650**

[a] Includes all loans and grants from ordinary capital resources, Asian Development Fund, and other Special Fund sources; excludes regional loans and grants.
Source: Controller's Department.

Table A4.8: Total Net Resource Transfers[a] to Borrowing Developing Member Countries

($ million)

Developing Member Country	2007	2008	2009	2010
Severely Affected (20)	**712**	**1,785**	**2,270**	**286**
Armenia	0	8	119	45
Azerbaijan	55	11	49	39
Cambodia	53	127	60	43
Cook Islands	(1)	0	(1)	10
Fiji Islands	2	2	(2)	10
Georgia	25	68	101	144
Kazakhstan	(14)	(47)	512	10
Kiribati	0	0	0	0
Maldives	9	5	7	24
Marshall Islands, Rep. of	(3)	(2)	(4)	6
Micronesia, Fed. States of	3	2	(1)	(1)
Mongolia	11	17	52	10
Pakistan	578	1,419	509	224
Palau, Rep. of	0	0	0	0
Philippines	46	195	923	(330)
Samoa	(2)	(1)	6	23
Solomon Islands	2	(2)	(2)	7
Thailand	(50)	(16)	(57)	21
Tonga	(2)	(1)	(1)	4
Tuvalu	1	0	1	0
Moderately Affected (5)	**2,075**	**2,323**	**3,359**	**2,925**
China, People's Rep. of	637	671	892	948
India	1,165	1,249	1,187	1,467
Sri Lanka	66	172	149	186
Tajikistan	37	49	104	42
Viet Nam	169	183	1,027	283
Least Affected (10)	**664**	**508**	**916**	**534**
Afghanistan	129	63	119	211
Bangladesh	99	327	762	151
Bhutan	6	4	31	53
Indonesia	316	1	(272)	27
Kyrgyz Republic	25	33	27	6
Lao People's Dem. Rep.	66	25	27	11
Nepal	43	52	119	24
Papua New Guinea	(35)	(12)	13	3
Timor-Leste, Dem. Rep. of	0	5	3	2
Uzbekistan	13	10	88	48
Total (with China & India)	**3,451**	**4,616**	**6,545**	**3,745**
Total (without China & India)	**1,648**	**2,697**	**4,466**	**1,331**

[a] Includes all loans and grants from OCR, ADF, and other Special Fund sources; excludes regional loans and grants.

Source: Controller's Department.

Average Monthly Pricing of the Trade Finance Program in Different Developing Member Countries
(percent)

Month and Year	Bangladesh	Indonesia	Nepal	Pakistan	Philippines	Sri Lanka	Uzbekistan	Viet Nam	Weighted Average
Feb-08	3.60			1.13					2.37
Mar-08	3.20			1.00					2.10
Apr-08	3.57								3.57
May-08	3.60								3.60
Jun-08	3.23			2.00		1.75			2.33
Jul-08	3.55			1.66		1.75			2.32
Aug-08	3.32			1.82		1.70			2.28
Sep-08	3.53			1.75		1.81			2.37
Oct-08	3.67			3.10		1.50			2.76
Nov-08	3.98			4.00		2.56			3.51
Dec-08	3.69			4.00		2.50			3.40
Jan-09	3.57			4.50		2.76			3.61
Feb-09	4.18		2.00	4.43		3.00			3.40
Mar-09	3.93		2.91	5.00		3.00			3.71
Apr-09	4.34		2.50	5.29		3.50		2.34	3.60
May-09	3.60			5.18				1.30	3.36
Jun-09	3.60		2.50	5.11				2.23	3.36
Jul-09	3.88		2.00	5.50				1.92	3.33
Aug-09	3.92		2.25	4.73		3.50		1.51	3.18
Sep-09	3.59	1.00	2.26	4.68		3.17		1.74	2.74
Oct-09	3.90	1.18	2.00	4.16		3.50		1.55	2.71
Nov-09	3.62	0.71	2.00	4.34				1.64	2.46
Dec-09	3.84	0.89	2.00	4.11		2.75		1.73	2.55
Jan-10	4.05	1.35		3.24		2.75		1.82	2.64
Feb-10	3.94	1.00		4.11		2.50		1.75	2.66
Mar-10	4.33	1.21		3.88		2.97			3.10
Apr-10	3.84	0.90	1.81	2.28		3.25		1.55	2.27
May-10	3.69		2.50	3.04		2.25	0.07	1.63	2.20
Jun-10	3.74	0.64	1.87	5.00	1.25	2.99	3.00	2.42	2.61
Jul-10	3.87	1.54	2.10	2.94			3.00		2.69
Aug-10	3.96			2.25		0.95	3.00		2.54
Sep-10	2.82	1.04	3.20	3.42		1.50	3.00	1.53	2.36
Oct-10	4.12	0.65		3.25		2.88	3.00	1.60	2.58
Nov-10	3.86	0.91		3.25	1.00		3.25	1.47	2.29
Dec-10	3.75	0.95		3.00	0.75		3.00	1.35	2.13

Source: Private Sector Operations Department.