

Testimony of Curtis S. Chin
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Mr. Chairman, Ranking Member Lugar, Members of the Senate Foreign Relations Committee: thank you for the invitation to discuss the Asian Development Bank (AsDB).

The AsDB is an integral part of the United States' engagement in the Asia and Pacific region, and today I will discuss how the institution has been central to furthering our goals in the region, including responding to the financial crisis, supporting our national security objectives, and driving broad and sustainable economic growth and development. I will also address the Administration's request for a General Capital Increase and our ambitious reform agenda.

First, I would like to note that I am concluding my tenure as the U.S. Executive Director for the AsDB, and that it has been a great honor and privilege for me to represent the United States on the Board of Directors of the institution. I believe the state of the AsDB today is sound, and that continued U.S. involvement and leadership will be essential to maintaining strength of impact in the region.

You may well already know of the status of many of these and other reforms through my having met routinely with Committee staff members for more than three years as part of my regular twice yearly consultation trips to Washington, D.C. Indeed, our push for change has benefited from those updates and interactions, and several of the changes that we have achieved stemmed in no small part from the suggestions and encouragement of this Committee. Key institutional reforms are taking hold, but continued U.S. engagement and oversight will be essential to ensure that it is not two steps forward, three steps back.

As of December 31, 2009, the AsDB had provided some \$155.89 billion in loans for 2,205 projects in 41 countries, \$5.19 billion for 315 grant projects and \$3.809 billion for 6,863 technical assistance projects. Much of this assistance takes the form of financing for large-scale infrastructure projects, particularly in transport, energy, and agriculture, all with the aim of improving people's ability to engage in economic activity and access critical public resources.

The AsDB is the largest regional development bank of which the United States is a member. Today, there are some 67 members of the AsDB – 48 from the Asia and Pacific region. As of December 31, 2009, Japan and the United States were the co-equal largest shareholders, each having contributed some 14.198 percent of the institution's capital stock. That large shareholding in turn brings, of course, influence, and also underscores the critical roles of as well as expectations of both the United States and Japan at the institution.

With strong U.S. support and attention, the AsDB has over these past four and one-half decades responded to the region's needs, including in times of crisis. In the last five years alone, we have

seen the AsDB complement the United States' own response to crises ranging from the devastating Indian Ocean tsunami and earthquakes that have hit the region, to spiraling food prices that threatened to add hundreds of thousands more to the ranks of the poor and hungry, to the ongoing floods that have impacted thousands of people in Pakistan today.

In response to the G20's call to accelerate and expand lending to mitigate the impact of the global economic crisis on the world's poorest, the AsDB responded in force. It increased lending to the benefit of nations as diverse as Georgia in the Caucasus region, to Bangladesh in the heart of South Asia, to the small Pacific island nation of Tonga. Ultimate beneficiaries ranged from schoolchildren in Mongolia who might have otherwise gone hungry to rural villagers in Indonesia. This crisis-related lending assistance including some \$5.4 billion for program and project lending, grants, private sector loans and guarantees; \$2.5 billion for a Countercyclical Support Facility; and \$850 million for a Trade Finance Facilitation Program. AsDB also approved commitment authority for some \$400 million to the region's poorest nations through its Asian Development Fund (AsDF).

Yet, despite the numerous success stories in the Asia and Pacific region, inequality and poverty remains the fact of life for the some 1.8 billion people who live on less than \$2 a day, according to the AsDB. Beyond the images of sparkling skyscrapers are still the all-too-common images of people who go to sleep hungry and who collectively drive home the reality that the Millennium Development Goals will not be fully met in many Asia-Pacific nations. Today, according to AsDB statistics, 903 million people in the Asia and Pacific region struggle on less than \$1.25 a day, and the region remains home to two-thirds of the world's poor. Further, all too often, the burden of poverty falls on society's most vulnerable: this includes women and children, the region's many indigenous peoples, the landless and the marginalized.

The United States and the AsDB

As a founding member of the Asian Development Bank, the United States has been successful in many ways in ensuring that the institution's limited resources complement U.S. foreign policy goals as well as our own official development efforts in the region. The AsDB and the Asia and Pacific region are as important to the United States now as at any time since the AsDB's establishment some 45 years ago. That was a time when conflicts threatened Southeast Asia, and many of today's Asian and Pacific island nations had yet to forge their own independent paths forward two decades after the close of the Second World War. Today, sadly, conflict or unrest continues in many parts of the region, and the demands on – and the benefits of continued engagement and leadership by – the United States continue as strong as ever.

In many ways, the AsDB's work today is also a crucial contributor to the United States' security. As an apolitical, international body, the AsDB has the power to convene, bringing sometimes-less-than-friendly neighbors together in a shared goal of a more prosperous and peaceful region – a goal in which the United States, as a Pacific nation, certainly shares.

To frame the United States' strategic foreign priorities, officials have spoken of the importance of the three Ds: diplomacy, defense and development. Here too, from a U.S. perspective, the AsDB plays a critical role. At the Asian Development Bank and in the Asia and Pacific region,

we bear witness to these interlinkages. Indeed, failed development contributes too often to failed nations. With strong U.S. support, the AsDB can continue to help the nations of the region to help themselves, as they themselves commit to put in place the rule of law, the governance systems, and the conditions to ensure an environment for further sustainable economic growth and development.

For example, the AsDB is the largest provider of non-military assistance to Pakistan, averaging as much as \$1.5 billion per year. With strong U.S. encouragement, the AsDB is now providing some \$2 billion of reconstruction and development assistance to Pakistan as it grapples with the massive flooding that has captured the world's headlines. Attention rightly is also being paid to ensure strict compliance with AsDB and government anti-corruption measures and procurement rules. The AsDB assistance focuses on reconstruction of Pakistan's battered transportation and energy infrastructure. Even before the flooding crisis, my own Board oversight visits to Pakistan – to the cities of Islamabad, Lahore and Karachi as well as to rural communities that are benefiting from AsDB-supported water and sanitation projects and mountain villages benefiting from earthquake reconstruction efforts – underscored to me that AsDB was clearly a leader among multilateral organizations delivering assistance to Pakistan.

In addition, the AsDB is now one of the largest donors to Afghanistan, along with the United States, the United Kingdom and the World Bank. Since the AsDB's resuming of operations in Afghanistan in 2002, AsDB projects are now helping the country recover from nearly 30 years of continuous conflict. AsDB's infrastructure projects in the transport sector include the reconstruction of significant portions of Afghanistan's main highway artery and the construction of the country's first railway link to Uzbekistan, opening up alternative routes for national and international trade, as well as for humanitarian relief to Afghanistan. In the energy sector, AsDB funding is helping Afghanistan to expand its national power grid and connect to Tajikistan's grid, allowing Afghanistan to import surplus electrical power from its northern neighbor. In the agriculture and natural resources sector, AsDB is financing a \$303 million effort to develop new irrigation and water resources infrastructure, and rehabilitate and upgrade existing infrastructure. My predecessor as U.S. Executive Director and I have both traveled in our Board oversight role to Afghanistan to meet with our U.S. Embassy Kabul colleagues, Afghan government counterparts and AsDB staff. To all of them as well as to our American colleagues on the frontlines of diplomacy, defense and development in both Afghanistan and Pakistan, let me pause to encourage and applaud their work under difficult circumstances.

The AsDB is also a major provider of assistance to Bangladesh, India and Indonesia, homes of some of the largest Muslim populations in the world. These are also countries that have deep challenges in poverty and have been afflicted by numerous natural disasters.

Benefiting U.S. Business

The United States also directly benefits from strong, continued support to the Asian Development Bank. U.S. businesses and consultants routinely – and successfully – pursue AsDB projects. According to the AsDB, since the institution's inception in 1966, U.S. firms have won contracts worth \$7.16 billion under AsDB-funded procurement. The AsDB reports that in 2009, U.S. firms won \$508 million in contract awards. For the last five years, the United

States has been the number one recipient of procurement contracts among the biggest donor nations. (The others are Japan, Germany, United Kingdom and Australia.) Using numbers from the AsDB Controller's office for the period January 1, 1967 to December 31, 2009, AsDB staff also recently informed the U.S. Department of Commerce that for every one dollar that the United States has contributed to the AsDB since the institution was founded, U.S. companies have won some \$1.63 in procurement contracts.

Regarding its relationship with the business community, the U.S. Commercial Service has noted that the AsDB is among the most open of the multilateral banks, and AsDB staff regularly meet with U.S. company representatives. It is also not only large companies that benefit from AsDB projects and programs. Small and medium-sized enterprises also benefit from AsDB procurement, and these firms are integral to fueling economic growth.

In 2008 and 2009 alone, U.S. contractors, suppliers and consultants from more than 25 states, representing every region in the country benefited from AsDB projects. AsDB contract awards for those two years show that in the North and Northeast, companies in New Hampshire, Maine, Vermont, Massachusetts, New York, New Jersey, Delaware and Pennsylvania have all landed AsDB contracts; in the South, companies in Alabama, North Carolina, South Carolina, Virginia and Maryland have won AsDB contracts; in the Midwest, companies in Illinois, Wisconsin, Ohio, Indiana, Kansas, Missouri, Nebraska and Iowa have landed AsDB contracts; and in the West, companies in Colorado, Utah, California, Washington and Hawaii have also benefited from AsDB contract awards. These awards represent a true cross-section of American companies.

As further illustrations of the interest of U.S. companies in AsDB projects, the U.S. Commercial Service maintains an up-to-date database of approximately 1,700 contacts that have asked to receive monthly project alerts for all current and planned AsDB projects, and in just the first nine months of this fiscal year, the Commercial Service AsDB Liaison Office in Manila counseled nearly 125 U.S. companies who were seeking information about how to do business with the AsDB. They also arranged 85 individual meetings at the Bank for interested firms.

The U.S. government works hand-in-hand in assisting U.S. companies in becoming aware of AsDB project opportunities as far in advance as possible, and in intervening on their behalf, as appropriate. With strong U.S. support, this will continue.

A Continuing Focus on Reforms

Despite all these achievements, however, we must remain vigilant that U.S. taxpayer funds are employed with the highest standards of efficiency.

For that reason, we have been successful in working with our partners at the Asian Development Bank to help shape and drive a robust program for reform of the AsDB. Such reforms include: 1) improving risk management and internal controls, and other institutional reforms particularly in the areas of anti-corruption and integrity; 2) strengthening the governance of human resources; 3) ensuring strong safeguards in the areas of resettlement, indigenous peoples and the environment; 4) bringing new focus to the AsDB's work in the Middle Income Countries,

including re-orienting lending to China; and, 5) providing more resources to the very poorest countries in the region. Implementation remains mixed to strong, underscoring as ever the need for continued U.S. engagement.

Through a very active U.S. role on the Audit Committee of the Board of the AsDB, we also have helped win progress in a range of areas that some members of this Committee have long pressed U.S. Administrations, past and present, to achieve through our engagement at the AsDB. As examples, the AsDB has introduced strengthened protections for whistleblowers and witnesses. The AsDB also has established strong, separate offices focused on internal audit, and on anti-corruption and integrity, and elevated its Risk Management operations to office-level, with added authority and resourcing. The AsDB these last three years also became the first of the multilateral development banks to introduce a comprehensive Development Effectiveness Review, somewhat akin to a corporate scorecard. The regular report, posted on the AsDB's website, outlines where the institution is ahead of, on track or falling behind in key areas.

This is not to say though that there is not much more to be done. Indeed there is. The AsDB's own corporate scorecard makes this clear. Change has come incrementally, and a fully engaged United States at the AsDB can help drive further change. Let me cite one area where our continued U.S. focus and engagement, I believe, can continue to help us win progress. As members of this Committee might know, the AsDB continues to decline to make public the names of firms and individuals that it has barred from future work at the AsDB although it acknowledges that there is some deterrent effect to publicizing its debarment list. With strong U.S. urging, AsDB now publishes and make publicly available on its website the names of firms and individuals that have been: debarred by AsDB for second or subsequent integrity violations; debarred by AsDB for sanctions violations (for example, attempting to participate in an AsDB-financed activity while ineligible); debarred by AsDB but who AsDB has found impossible to notify (so-called "process avoiders"); or cross debarred by AsDB pursuant to a Cross-Debarment Agreement (Agreement for Mutual Enforcement of Debarment Decisions) entered into in April 2010 by the World Bank Group, the AsDB, the African Development Bank, the Inter-American Development Bank, and the European Bank for Reconstruction and Development. Continued U.S. engagement is necessary to achieve further improvement in the disclosure of firms and individuals debarred from MDB procurement activities.

Firms and individuals who are on AsDB's publicized list subsequent to the Cross-Debarment Agreement being declared in force are subject to cross debarment by the other MDBs. The list of firms and individuals sanctioned by AsDB as first-time violators is published on AsDB's intranet for AsDB staff and AsDB's Board of Directors. Currently, AsDB shares this debarment list via e-mail with international organizations, government agencies that implement AsDB projects, bilateral aid organizations and others with a demonstrated need to know. AsDB also is currently developing a password enabled website to provide all of the foregoing with direct access to the list of initially sanctioned firms and individuals, and expects to have the site operational before the fourth quarter of 2010.

In the months ahead, strong U.S. involvement and engagement – in part through full participation in a General Capital Increase for the institution – will also be critical as we work to ensure robust, credible reviews of the AsDB's Information Technology governance and

organization, as well as of its Public Communications Policy and its Accountability Mechanism. Now is not the time for the United States to pull back from what has been a strong and beneficial ownership stake in the Asian Development Bank.

As has been noted, the Board of Governors of the AsDB – with Secretary of Treasury Geithner serving as the governor for the United States – recently approved the fifth General Capital Increase for the institution, the first in some 15 years, and the United States has pledged to participate. For FY 2011, the Administration is requesting capital subscription for General Capital Increase V (GCI V). Participation in the GCI requires \$106.6 million for FY 2011 (and a similar amount for the following four years for a total U.S. five-year commitment of approximately \$533 million). This will allow the AsDB to continue lending at a sustainable level of \$10 to \$11 billion for the next 10 years.

In addition, the Administration is requesting \$115.3 million for the second installment of a four-year commitment under the agreement of the ninth replenishment of the Asian Development Fund. The U.S. total four-year commitment for AsDF 10 of \$461 million contributed to a total \$11 billion replenishment, allowing the AsDB to provide up to \$2.75 billion in grant assistance per year via the Asian Development Fund to the poorest nations of the region.

These contributions are important to the continuity of the AsDB's development assistance; failure to fully fund these commitments impairs the ability of the AsDB to deliver timely assistance. Furthermore, these commitments are crucial to our ability to engage and shape the AsDB and the assistance it provides in ways that are favorable to U.S. interests.

Six months ago, in March of this year, the ranking Member of this Committee transmitted to the full Committee on Foreign Relations a report entitled "The International Financial Institutions: A Call for Change." This report followed on an oversight project on the multilateral development banks that had begun some seven years earlier, focused on ensuring that the MDBs' financing reached the intended people and projects. In it the report said, "As the requests for capital are negotiated with the international donor community, there is a window of opportunity for significant reform." The report also said that "Congress must be able to assure taxpayers that the money is needed, and that it will be used efficiently."

These are critical points. From my perspective, though, of having served for nearly three and one-half years as U.S. executive director at the AsDB, and having for many more years than that worked and lived in the Asia and Pacific region, first as the son of a U.S. military officer and then as a member of the private sector, I can attest: the money is needed and is in America's interests. Further, a strong, focused Asian Development Bank that continues with the United States as its co-equal, largest shareholder is very much also in America's interests.

The AsDB has responded to date, slowly but increasingly surely, to our calls for change and for added transparency and accountability. Clearly reform is an ongoing process. Indeed, reform has rightly been called also a never ending process. As I prepare to step down from my post as U.S. executive director, my hope is that reforms achieved through strong U.S. involvement at the AsDB will not be lost. A General Capital Increase fully subscribed to by the United States will help ensure a strong U.S. role; and that the Asian Development Bank will continue to move

forward, changing to meet the needs of a region that has changed faster than the institution designed to serve it. Achieving this and further progress on reforms will require strong, continued U.S. support and engagement. That is to the benefit of not just the people of the Asia and Pacific region, but also of the United States.

Thank you.