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Diversity in ODA: An Examination of ADB's Individual Identity

by

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Abstract

This paper investigates diversity in official development assistance by examining the existence of a unique identity in the development assistance provided by the Asian Development Bank (ADB). World Bank lending is used as a benchmark. The study covers lending from 1985 up to 2002, and the countries of China, Indonesia, Republic of Korea, Malaysia, the Philippines, and Thailand. Comparative analysis shows that even though it shares broad similarities with the World Bank, the ADB has apparent operational differences in terms of the discretion over and actual movement of its major types of financing, and in terms of the variables associated with its loan accumulations.

The Problem and Its Significance

Within the Japanese development literature, one overriding concern, with regards to its Official Development Assistance (ODA), in the last two decades of the 20th century was the individual identity of Japan's ODA program. With the ending of the Cold War, its emergence as a major donor country, and the implementation of an ODA program that generally differed from that of other major donor countries, Japan was hard-pressed to articulate its ODA program to the international community.

By and large, Japan has responded to the challenge. Under Japanese financing, the World Bank was commissioned to survey the excellent growth performance of highly performing East Asian countries. This survey culminated in the 1993 East Asian Miracle report, which documented the peculiar characteristics and mechanisms underlying such performance. At the same time, the Japanese government came out with its ODA charter which enshrined the philosophy of supporting the self-help efforts of recipient countries.

Japanese development economists have been active in explaining Japan’s ODA philosophy in a consistent way.[2]

With the weakening of the Japanese economy in the 1990s, however, there has been a perceived slackening within Japan to push its stamp of individual identity. Japanese development experts have started decrying the pressure to redirect ODA funds to the poorest countries willing to adopt “international best practices.” (Ohno October 2001). A burgeoning budget deficit has also led to ODA budgetary cuts, which at the same time made Japan less bold in asserting its individual identity, and critics more daring about their own development agenda.

The Asian Development Bank (ADB) is a multilateral development bank which acts as a conduit for Japanese ODA, as well. Traditionally, the ADB’s Presidency has been held by a Japanese national, symbolizing Japan’s dominant presence in ADB. Recently, however, various criticisms have been made regarding ADB’s independence.

Like any other multilateral development bank, most of the criticisms against ADB pertain to the effectiveness of its financing. This paper, however, will concentrate on a less cited but equally important aspect of ADB: its individual identity.

This aspect is important when viewed in the context of the ADB being a regional development bank, established to assist financially in the development of Asian countries. Without going to the extent of cutting all coordination with the other multilateral development banks, ADB must be able to establish its individual identity that is rooted in its own immersion and exposure to the Asian region..

[2] For example, see: the Market Economy Development Approach of Ishikawa (1990; 1996); the Comparative Institutional Analysis Approach of Aoki, Kim, and Okuno-Fujiwara (1996); the Economic System Approach of Yanagihara and Sambommatsu (1997); and the clarifications of the self-help effort philosophy of Kohama (1993) and Shimomura, et.al. (1999)

The rest of this paper basically undertakes a comparative analysis of the ADB with the World Bank. The World Bank can be considered as the global standard in multilateral development banking—an ardent exponent of international best practices, if you will. Through such a comparative analysis, the paper aims to clarify the existence of ADB's individual identity.

Stylized Comparative Analysis between the ADB and World Bank

The World Bank was established in 1944 during the Bretton Woods meetings in anticipation of the establishment of a new international financial order once the war was over. Given such a mandate, the World Bank headquarters is suitably located in Washington, DC, the political center of the strongest nation in the world. In contrast, ADB was established in 1966 and has its headquarters, ironically not in Japan—the strongest economy in the Asian region, but in the Philippines. To some extent this choice of location could have been influenced by the economic potential of the Philippines at that time. A World Bank report in the 1950s identified the Philippines as the country in Asia next to follow Japan in development. Unfortunately, by accident and careless choice, this potential has not been realized. Moreover, the Philippines' geopolitical strategic role in Southeast Asia made it an attractive location for the United States, one of the major partners in establishing the ADB. In any case, the Philippines is geographically centrally located in East Asia, being just at the border of the ASEAN 10 countries and Northeast Asia formed by Japan, the Republic of Korea and China.

In terms of scale, the World Bank's development financing as of 2002 amounted to 11.5 billion US dollars in the form of loans and 8.1 billion US dollars in the form of grants. In contrast, the ADB had 5.5 billion US dollars in the form of loans and a relatively small amount of 360 million in the form of grants. In the same year, the World Bank had 184 member countries, about 170 of which can be considered as developing member countries, while the ADB had a total of 62 Asian countries, of which 41 are developing member countries. On a gross basis, ADB's development financing and membership is smaller than that of the World Bank. It can be seen, however, that, on the average, the World Bank has a smaller development financing per developing member country.

Both the World Bank and the ADB provide basically the same main forms of development financing. These forms can be distinguished based on whether they are hard (less concessional) or soft (more concessional) financing. In terms of hard financing, the World Bank has the International Bank for Reconstruction and Development (IBRD) loans, while the ADB has the Ordinary Capital Resource (OCR) loans. In terms of soft financing, the World Bank provides International Development Association (IDA) development credits, while the ADB provides Asian Development Fund (ADF) loans. There are other services being provided by these multilateral development banks (e.g., investment guarantees, special funds, equity provisions), but the bulk of their operations consist of providing the hard and soft financing mentioned above.

Perhaps, in this sense, the two multilateral development banks can be said to mimic each other, given the parallel forms of major financing they are providing. As can be seen from Figure 1, both banks allocate a larger portion of their resources to hard financing. Moreover, calculating the average values (for 1986 to 2002) of the ratio of IDA credits to IBRD loans, and the ratio of ADF loans to OCR loans yields 39.2% and 40.5%, respectively. This suggests that the World Bank and the ADB, on the average, have similar ratios for soft-hard financing. These ratios have largely been maintained. The average growth rates for cumulative values of financing (for 1986 to 2002), however, differ between banks but are similar within each bank: 7.3% for IBRD loans; 8.0% for IDA credits; 27.6% for OCR loans; and 25.6% for ADF loans. The similarity of average growth rates of cumulative values within

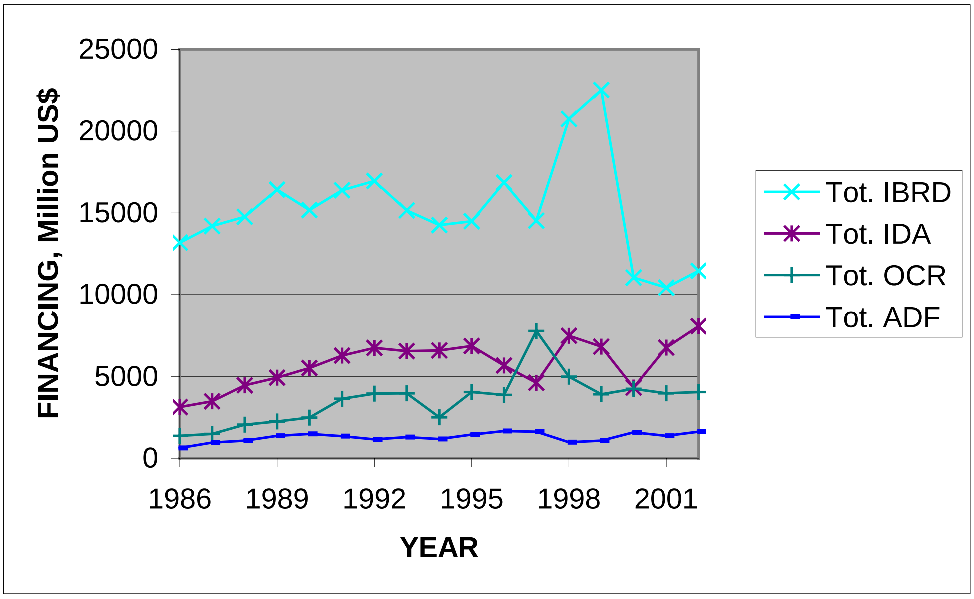

Figure 1. ADB and World Bank Financing.
Source of Data: ADB and World Bank Annual Reports (various issues)

each bank suggest that the ratio of soft to hard financing within each bank has been fairly stable over the years.

The two banks could also be compared in terms of the influence of their dominant members, the United States and Japan. Each country's influence can be measured in terms of fund-specific voting power, which directly corresponds to the amount of contribution made by these countries to the four financing mentioned earlier. The two banks differ from ordinary commercial banks in the sense that their (member country) clients are also their shareholders. While the two countries have the top two largest voting powers in the two banks, we can observe some differences as can be seen from Table 1. The United States clearly dominates Japan in both the IBRD loans and IDA development credits of the World Bank. On the other hand, US domination is greatly curtailed in the ADB funds. Japan has a voting power that is almost perfectly the same as that of the US in the OCR loans. Moreover, it clearly dominates the US in the ADF loans. This would suggest there is a strong possibility of Japan, and hence, the ADB exhibiting its individual identity.

Country	**ADB, %**		**World Bank, %**	
	OCR	**ADF**	**IBRD**	**IDA**
Japan	13.2	46.1	7.1	10.0
United States	12.5	11.5	17.4	17.0

Table 1. Voting Power Averages, 1985 to 2002

Note: ADF voting power was calculated by dividing the period-average commitment by the period-average total.

Source: Calculated from data given in ADB and World Bank Annual Reports (various issues)

In terms of interest rates, both the World Bank and the ADB refer to their hard financing as loans, and these are administered on a cost pass-through basis. Although the resulting interest rates are lower than commercial rates, cost pass-through requires that the interest rate charged to borrowing member countries of the two banks should be equal to the cost of funds plus a spread. In short, the banks' lending policy requires that these be at least able to cover their borrowing costs for their hard financing.

In contrast, the soft financing of both banks are not administered on a cost pass-through basis. The World Bank refers to its soft financing as development credits, emphasizing the fact that these are highly concessional financing. IDA development credits are basically provided in the form of zero-interest loans (requiring only the return of the principal) or as outright grants. On the other hand, the ADB refers to its soft financing as loans. ADF loans are provided are basically provided with a per annum interest rate of about

1% during the grace period, and about 1.5% thereafter. This suggests that it is in the soft financing (ADF loans) that Japan and ADB seems to exhibit most strongly an individual identity. Such identity seems to be less exhibited in the hard financing, since the two banks adopt similar procedures.

This is reminiscent of research done on Japan's ODA philosophy. As mentioned earlier, the self-help effort philosophy was enshrined in Japan's ODA charter. One feature of this philosophy is the tendency of charging stringent financial terms on ODA. In short, Japan tends to shy away from giving very concessional ODA. Such practice is usually defended as an incentive mechanism which spurs the recipient country to exert effort on ODA-funded projects so as to be able to repay the interest charges for the ODA funding.

Such a practice has come under criticism from the majority of donor countries, which generally apply highly concessional terms to their ODA. In effect, according to this majority opinion, financing for development, in general, should be provided at either nearly commercial or nearly grant terms. Japan's propensity to provide its concessional funds at relatively more stringent terms effectively positions its ODA somewhere the two extremes preferred by the majority.

This same phenomenon seems to exist in ADB vis-à-vis World Bank financing. Hard financing by both banks are provided under similar terms. It is in soft financing where the two banks diverge in practice. ADB appears to be in accord with the self-help effort philosophy of Japan's ODA, since it charges more stringent terms for its ADF loans than the World Bank generally does for its IDA credits.

Statistical Comparative Analysis between the ADB and World Bank

In this section, we compare the four types of financing by analyzing actual financing statistics. The statistical analysis is divided into two parts. In the first part, the statistical analysis compares the movement of one type of financing with its counterpart in the other bank. Hence, IBRD loans are statistically compared with OCR loans, and IDA credits with ADF loans. In the second part, the statistical analysis inquires into the factors determining each of the four types of financing.

For the first part, the following regression equation ultimately yielded the best results

$$\log(FIN_i^{ADB}) = \hat{\alpha} * \log(FIN_i^{WB}) + \hat{\beta} * \log(time)$$

where

FIN_i^{ADB} = the i-type financing of ADB,

FIN_i^{WB} = the i-type financing of the World Bank, and i is hard type financing or hard type financing.

The results of the simple OLS estimation are given in Tables 2. One general observation that could be made from Table 2 is that the relationship between hard financing is much stronger than that between soft financing. This can be readily seen in the cases of Indonesia and the Philippines. The t-statistics and adjusted R-squares are higher in the case of hard financing than in the soft financing. This disparity is even more significant if we interpret the soft financing of the remaining countries as implying zero or no relationship. This includes the case where the subject country resorts to only one facility as in the cases of China and Malaysia. This virtually means that the lending bank provides financing completely independent of the non-lending bank. In the case of countries that had graduated from concessional lending such Korea and Thailand, however, there is practically no way to show independence or dependence. The indication of a weakening of relationship between the lending of the two banks, however, remains tenable.

Such a weakening implies that: (1) the growth rates of OCR loans of the ADB and IBRD loans of the World Bank have a high tendency to move together; and (2) the growth rates of ADF loans of the ADB and IDA credits of the World Bank do not have as high a tendency to move together.

Country	**Hard Financing (OCR on IBRD)**			**Soft Financing (ADF on IDA)**		
	$\hat{\alpha}$	**t-statistic**	**Adjusted R-square**	$\hat{\alpha}$	**t-statistic**	**Adjusted R-square**
China	0.303	6.52	0.89	Only IDA loans		
Indonesia	0.670	99.29	0.93	0.607	25.08	0.86
Korea	0.532	9.98	0.62	No soft financing		
Malaysia	0.675	76.18	0.90	No soft financing		
Philippines	0.556	42.16	0.92	0.659	8.09	0.78
Thailand	0.542	19.59	0.85	No soft financing		

Table 2. Estimation Results of Relationship between ADB and World Bank Lending.
Note: All coefficient estimates (including those for the time-related explanatory variable) are statistically significant to 5% level.

The second part of the statistical comparative analysis between the ADB and World Bank lending involves an investigation of the factors that may explain the cumulative lending of the two banks. The ADB and World Bank annual reports suggest that in allocation their financing, the two banks put a lot of weight in country credit risk, i.e., the possibility that the recipient country will not repay its loan obligations.

In the statistical analysis that follows, we break down country credit risk into macroeconomic and microeconomic factors. Macroeconomic factors refer to recipient country economic factors that are largely specific to the type of financing instrument. Based on readily available time series data from the IMF's International Financial Statistics, we chose per capita GDP and lending (domestic) interest rates as economic indicators of country risk. Microeconomic factors, on the other hand, refer to country economic factors that are largely specific on the type of financing instrument. Based on readily available time series data from the annual reports of the two banks, we chose percentage of outstanding loans, and computed indicators of disbursement-related and repayment-related efforts.

Disbursement-related and repayment-related efforts are taken to be performance measures that are expected to be strongly related to the efforts of recipient countries. Such efforts, however, can not be directly measured. In this paper, we computed appropriate indicators based on readily available data.

Disbursement-related effort is the effort exerted by the recipient country so as to disburse the committed financing as smoothly as possible. One common complaint of the multilateral development banks is that the recipient country is slow to disburse the committed amounts. To some extent such slowness can be attributed to a structural aspect, such as the absorptive capacity of the recipient country, and to a more operational aspect, such as the poor management of development-assisted projects. In both cases, however, recipient effort can be exerted so as to improve on both aspects, and, hence, improve on disbursement.

The indicator for disbursement-related effort is computed from the ratio of outstanding loans to total (committed) loans. In general, the difference between these two amounts is proportional to if not equal to the undisbursed portion of total loans. The maximum value for this ratio, therefore, is unity. The closer this ratio is to one, the less the amount that is not disbursed. This can be interpreted to be, in general, as an indication of better disbursement-related efforts.

Repayment-related effort, on the other hand, is the effort exerted by the recipient country so as to make good on the repayment obligations of the development assistance. The better the effort exerted by the recipient country on the implementation of the development-assisted project, the higher the probability that the project will yield the projected future income stream from which repayments for the financing can be allocated. The indicator for repayment-related effort for this year is computed as equal to this year's approved financing minus last year's outstanding loans plus this year's outstanding loans. This computation is actually based on a stock-flow concept, wherein the increase in stock of loans (as measured by the difference in outstanding loans) is equal to the inflow (approved loans) less the outflow (repayments).

Based on the premise that these variables provide measures of country risk, the following a priori expectations could be derived.

(1) A higher per capita income would suggest a more advanced level of development of economic institutions, and, hence, a lower country risk.

(2) A higher level of domestic lending rate could indicate that the recipient country has a high marginal efficiency of capital. This would place the country at a relatively low level of capital utilization that is a feature of countries at a lower stage of development. Alternatively, the high lending deposit rate would also indicate a high risk premium. Both arguments suggest that a higher lending interest rate could be associated with a higher country risk.

(3) A higher percentage share to total loan outstanding would indicate a higher exposure of the bank to the subject country. This would indicate a higher portfolio

concentration risk[3], and, hence, a higher country risk.

(4) A higher disbursement-related effort would indicate a higher absorptive capacity and operational efficiency, both of which should lower the country risk.

(5) A higher repayment-related effort would indicate a higher probability of generating future income streams from which repayment obligations could be met. This corresponds, therefore, with a lower country risk.

Assuming that a higher country risk would lead to make the bank more reluctant to accumulate loans, the a priori expectations above could be summarized as in Table 3.

Explanatory Variable	**Expected Relationship with Cumulative Loans**
Per Capita GDP	Positive
Domestic Lending Interest Rate	Negative
% Share to Total Loan Outstanding	Negative
Disbursement-Related Effort	Positive
Repayment-Related Effort	Positive

Table 3. A Priori Expectations Based on Country Risk

OLS estimation using annual approved loan as the dependent variable did not yield good results. Much better estimation results were obtained when using the natural logarithmic form for both dependent and independent variables, implying that elasticities are relatively constant. All estimations went through basically the same procedure. Initial estimation

[3] Portfolio concentration risk, which arises when a small group of borrowers account for a large share of loans outstanding, is a key concern for IBRD and is carefully managed, in part, through a single borrower exposure limit. (World Bank 2003, pp. 21-22)

started out with all of the five independent variables,[4] and statistically insignificant variables (at the 5% level of significance) were progressively eliminated from succeeding estimations. Tables 4a and 4b summarize the salient points of the estimations. The bold figures refer to coefficient estimates, while the italic numbers below the bold figures refer to the t-statistic.

From Table 4a, it can be seen that, despite the relatively good statistical nature of the estimation results, no independent variable is consistently a good explanatory variable, whether it be across countries or across banks. This would imply that ADB's OCR lending would be even more independent of the World Bank's IBRD lending, than suggested by the results in the first part of this section. The same results could be seen from Table 4b which simply further corroborates the findings in the first section regarding the higher degree of independence in the concessional financing of the two banks.

Looking at the signs of the elasticity estimates in Table 4a, however, we can find some degree of regularity. Of the 15 statistically significant estimates for the log of cumulative IBRD loans, 10 of the signs conform to the a priori expectations. In contrast, of the 16 statistically significant estimates for the log of cumulative OCR loans, 12 signs conform to the a priori expectations. In general, ADB's hard lending seems to perform better than the World Bank in terms of abiding with a priori expectations.

The greater source of the World Bank's poorer conformance performance can be traced to the Northeast Asian countries. China scores two conformances (to the a priori expectations) out of four total significant estimates, with all of the two non-conformances appearing in the IBRD loans. Korea has only two conformances out of a total of eight significant estimates. In stark contrast is the much better conformance of Southeast Asian countries. With the exception of the positive coefficient estimate, in the case of the

[4] With the exception of China for which a sufficiently long data series on macroeconomic variables could not be obtained.

Philippines, for LR on log of cumulative OCR loans, all of the other significant estimates conform to a priori expectations. This would suggest that a different allocation decision-making is being applied to the Northeast Asian countries.

Dependent Variable	log of cumulative IBRD loans						log of cumulative OCR loans					
Independent Variable	PCY	LR	%LO	O/T	RPT	Adjusted R-square	PCY	LR	%LO	O/T	RPT	Adjusted R-square
China	ND	ND	**1.36** *32.6*	**-0.76** *-8.0*	INS	99.5	ND	ND	INS	**63.1** *12.2*	**0.50** *3.4*	93.8
Indonesia	**0.37** *2.1*	INS	INS	**1.95** *11.2*	INS	70.1	**0.44** *2.4*	INS	**-1.62** -7.8	**3.26** 14.1	INS	88.0
Korea	**0.98** *12.6*	**0.33** *3.3*	**0.74** *10.9*	**-0.95** *-3.1*	INS	97.5	**2.68** *14.3*	INS	**1.40** *13.6*	**-0.95** *-2.9*	**-0.40** *-3.1*	95.4
Malaysia	INS	**-0.77** *-7.3*	INS	**1.08** *11.7*	**0.07** *3.4*	91.5	**0.89** *65.5*	INS	**-0.37** *-5.0*	INS	INS	80.4
Philippines	**1.09** *10.1*	INS	**-0.70** *-3.5*	INS	INS	90.6	**2.07** *6.1*	**0.99** *3.3*	**-1.93** *-6.7*	INS	INS	94.5
Thailand	INS	**-0.76** *-9.9*	**-0.29** *-4.7*	INS	INS	90.1	**1.86** *6.9*	**-1.88** *-5.0*	INS	INS	INS	86.5

Table 4a. Estimation Results for Cumulative Lending per Country (Hard Financing)

Notes:

ND = No Data

INS = statistically insignificant at the 5% level of significance

PCY = log of per capita income in billion US$ per capita

LR = log of lending rate in % per annum

%LO = log of percentage of total loan outstanding

O/T = log of the ratio loans outstanding to total loans

RPT = log of repayment in millions of US$

Looking at the signs of the significant estimates in Table…, out of the eight significant estimates for log of cumulative IDA credits five conform to a priori expectations.

As in the hard financing case, the ADB soft loans have a higher conformance of four out of five significant estimates. With lesser significant estimates, however, it is not quite clear how the Northeast Asian countries compare with the Southeast Asian countries. China's two conformances out of three significant estimates, however, is suggestive of a better performance than that noted in the hard financing case.

Dependent Variable	log of cumulative IDA credits						log of cumulative ADF loans					
Independent Variable	PCY	LR	%LO	O/T	RPT	Adjusted R-square	PCY	LR	%LO	O/T	RPT	Adjusted R-square
China	ND	ND	**0.55** *2.3*	**0.90** *2.3*	**0.09** *2.3*	95.3	NL	NL	NL	NL	NL	
Indonesia	INS	INS	INS	**-0.82** *-13.3*	**0.06** *3.5*	97.0	INS	INS	INS	**3.88** *6.6*	**0.45** *2.4*	74.5
Korea	NL	NL	NL	NL	NL		NL	NL	NL	NL	NL	
Malaysia	NL	NL	NL	NL	NL		NL	NL	NL	NL	NL	
Philippines	**1.16** *6.3*	**-0.47** *-2.7*	INS	**-0.74** *-3.6*	INS	88.6	**2.53** *3.8*	INS	**1.16** *3.4*	INS	**0.67** *7.2*	76.3
Thailand	NL	NL	NL	NL	NL		NL	NL	NL	NL	NL	

Table 4b. Estimation Results for Cumulative Lending per Country (Soft Financing)

Note:

NL = no lending

See additional notes in Table 4a.

Higher conformance, however, should not be construed as more effective lending. At best, we can say that the ADB follows a more intuitive type of lending than the World Bank. The judgment as to which lending practice is ultimately better for the recipient country is beyond the scope of this paper.

Recent Changes and Future Issues

In January 1, 2002, the ADB implemented a reorganization, which highlighted ADB's shift from project and sector focus to a country focus. This has led to a change in its lending focus from project- and sector-based to more country-based lending. It is not yet clear how the reorganization will impact on the development of member countries, but it certainly can be acknowledged as a move towards greater responsiveness to the needs of member countries, and a greater likelihood that ADB would carry out its operations independently of that of the World Bank.

Another stated reason for the reorganization was to enable ADB to "deliver its mandate of poverty reduction." Such mandate is articulated in ADB's Poverty Reduction Strategy (PRS).

> Reduction of poverty is no longer just one of five objectives, it is ADB's overarching goal. To this end, the other strategic objectives (i.e., economic growth, human development, sound environmental management, and improving the status of women) will be pursued in ways that contribute most effectively to poverty reduction.[5]

ADB's thrust towards poverty reduction more or less coincides with the Poverty Reduction Strategy Papers (PRSP) approach of the World Bank, which was agreed upon in the Annual Meeting of the IMF and World Bank in September 1999. Since July 2002, the World Bank has based its plans for assistance to low-income developing countries on the PRSP.

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5 ADB (1999), p.2

Both the ADB's PRS and the World Bank's PRSP approach abide by the Millennium Development Goals (MDG), which targets poverty reduction.[6] Both also are based on the core principles of the Comprehensive Development Framework (CDF)[7], i.e., comprehensiveness, partnership, ownership, performance-based, and long-term. These are also founded on the main pillars of broad-based (or pro-poor) growth, inclusive social development, and good governance. Both banks have made these strategies a necessary requirement for lending to low-income countries, particularly IDA development credits and ADF loans. In a broad sense, therefore, the two banks do not differ in their new focus on poverty reduction.

A subtle but crucial difference could be detected, however, in the two banks' emphasis on broad-based growth vis-à-vis direct poverty reduction measures. ADB has a tendency to put a higher priority on broad-based growth.

> The Asia-Pacific experience strongly suggests that the pillar of pro-poor economic growth is the central feature of an effective poverty reduction strategy. The recent success of PRC in reducing poverty provides further testimony to the strong impact of sustained and rapid economic growth on poverty reduction. Faster economic growth would also provide additional resources to the government for undertaking social sector investments.[8]

On the other hand, there appears to be a preference in the World Bank's PRSP approach

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[6] The Millennium Development Goals are based on the UN Millennium Declaration adopted by the UN General Assembly on September 18, 2000.
[7] Presented to the World Bank Board of Governors in 1998.
[8] ADB (2003), pp. 16-17.

towards direct poverty reduction measures. Shigeru (2002)[9] pointed this out in his involvement in the implementation of the PRSP in the case of Vietnam. Such policy shift has caused a conflict of priorities between the World Bank and the Vietnamese government.

> World Bank and donor documents on Vietnam often indicate that the main issue for their discussions with the Vietnamese government over poverty reduction strategy is on the balance of budgetary allocation between (i) broad-based growth, and (ii) pro-poor targeted expenditure. In particular, in the Joint Report of Government-Donor-NGO Poverty Working Group (Vietnam Development Report 2000: Attacking Poverty) suggests that prior to the 1999 Consultative Group (CG) Meeting, there existed disagreements between the Vietnamese government (i.e., the Ministry of Planning and Investment (MPI)), who favoured a poverty reduction approach, and the World Bank and donors in the Poverty Working Group (which also includes the Ministry of Labour, Invalids and Social Affairs (MOLISA)), who favoured a poverty reduction approach.[10]

The World Bank provides advice on the issue of poverty reduction through its PRSP Sourcebook,[11] which is an evolving document compiling the World Bank's accumulated experience on poverty reduction. The sourcebook devotes a chapter to inequality and welfare as one of its core techniques. In this chapter, the relationship between inequity and

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[9] This Discussion Paper is the English translation of the original text (in Japanese) published in the Transactions of the Japan Academy (Nihon Gakushiin Kiyo), Vol. 56, No.2, January 2002. The author, Shigeru Ishikawa is emeritus Professor of economics, Hitotsubashi University, and was a chairperson of the Japan International Cooperation Agency Study Group on Vietnam.

[10], Ishikawa (2002), pp. 32-33.

[11] The sourcebook is freely available from the World Bank in various digital forms, see http://www.worldbank.org/poverty/strategies/sourctoc.htm

growth is highlighted. In its own right, the chapter clarifies an important but elusive phenomenon: equity and growth. What is interesting here is that causality focused upon is from inequity to growth—which would naturally yield to or emanate from a preference for direct poverty reduction measures vis-à-vis growth.

Such preference is to some extent reflected in the World Bank's 2003 assessment of its PRSP approach.

> The PRSP approach seeks explicitly to ensure that growth benefits the poor. A review of the policy content and implementation record to assess whether PRSP policies to promote growth have been oriented towards the poor was undertaken for those countries most advanced in PRSP implementation.5 This review used a simple framework focused on policies aimed at: (i) ensuring an appropriate investment climate; (ii) increasing the productivity and income generating potential of the poor; and, (iii) increasing the assets (education, health, and land) of the poor.[12]

Criterion (i) can be inferred as that which is most related to growth, while the other two criteria are more related to direct poverty reduction. Although the policy weight of each criterion is not explicitly stated in the report, a qualitative tendency towards direct poverty reduction measures is implied.

Moreover, the two banks also appear to differ in terms of the "neoclassiness" of their approaches. The World Bank seems to have simply put a poverty reduction veil on top of its Washington Consensus core.

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[12] IMF (2003), p. 7.

> In PRSP, too, a range of at first glance disparate positions come together. Most remarked in contemporary PRSPs is how the legacy of neo-liberal economic policy, with its concern to rapidly advance global openness and integration, and to privatise and deregulate state assets and enterprises, is jumbled together with populist concerns about growing inequality and the exclusion of wide swathes of the population from economic opportunity, with measures to protect vulnerable populations from increasingly volatile rural economies as agro-industries in traditional sectors like wheat, rice or other staples are restructured and shed labour in response to these forces.[13]

On the other hand, the ADB evaluation report appears to be taking a less neoliberal stance.

> Second, the international trading environment may not be as favorable as it was in the 1980s and 1990s, when the economies of East and Southeast Asia recorded high rates of economic growth by integrating with the global economy. While it is somewhat premature to judge the likely trading scenario over the next decade, there are indications that protectionism could be gaining ground in some of the important export markets of Asia. Governments will need to adjust to the changing scenario.[14]

At this early stage of implementation, the World Bank and ADB approaches to poverty reduction are still in a state of evolution. There has undoubtedly a convergence in

[13] Craig, D. and Porter, D. (2001), p. 2.
[14] ADB (2003), p.17.

the initial impetus for the policy shift. It is still too early to say which direction their respective evolutionary paths will take. But it is safe to say that such divergence should be welcome given that the ADB has to be more sensitive to local conditions than the World Bank would be.

This paper has shown that while there are broad similarities between the ADB and World Bank, there are also significant differences that arise when viewing the lending practices of the two multilateral development banks. The analysis points to two important issues, which is the subject of ongoing research.

The first issue is regarding the extent to which ADB's lending practices are based on the unique development experience of East Asia particularly that of its most successful member, Japan. The poverty reduction assessment reports of the two banks both point to the importance of greater harmonization among donor institutions. But at the same time, both banks recognize the need for greater ownership of development-assisted projects. Harmonization and ownership are worthy objectives, but they can be competing objectives, as well. Unlike the World Bank, the ADB is not particularly known to be the vocal advocate of a specific development framework. On the contrary, it has been dancing quite nicely to the development tune of the times, which seems to be ever-changing. Indeed, the poverty reduction assessment reports of both banks have also raised the problem of perpetual changes in goals. The ADB assessment report, however, highlights the uniquely sterling performance of the East Asian region in terms of poverty reduction. Although not an official statement of ADB's policy stance, the Craig and Porter paper may be symptomatic of this tension between harmonization and ownership. In the end, if ADB is to be faithful to its stated thrust of increasing country focus, then it should be more aggressive in articulating a development framework that may be different from that of, say, the World Bank. As have been suggested, the Japanese development experience contains a wealth of reference for such a framework. A noted Japanese economic development expert, Ohno has raised the possibility of a "two-track approach to economic cooperation" which "urges the Japanese government to proclaim *contributing to global goals* and *supporting Asian dynamism*."[15] As he rightly points out, "Asian dynamism" is another (recent) term for the older "flying geese model" which has been used to explain the various waves of growth found within East Asian countries and across the region. The formulation of the model is in fact attributed to a Japanese economist, Akamatsu Kaname, who started publishing in Japanese about this model as early as the 1930s.[16] To what extent such concepts have been reflected in ADB's development assistance is the subject of ongoing research.

A second issue is regarding the extent to which ADB's independent identity has proven to be beneficial for the developing member countries of Asia. Looking back at Tables 4a and 4b, it can be seen that, with the exception of Korea, ADB's cumulative lending has been positively related to the effort-related measures (i.e., disbursement-oriented and repayment-related efforts). This, of course, corresponds to the a priori expectations, indicating that loan accumulation is associated with country risk as determined by recipient country efforts.

Another plausible interpretation of these results is that there are learning-by-doing effects in ADB's lending operations. The cumulative lending experience of ADB appears to be associated with improving recipient country performance, as measured by the effort-related measures. This suggests that ADB's independent identity may have been helpful in this sense.

A deeper investigation, however, is warranted. It is intriguing to note that the

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15 Ohno (2002), p.7.

16 His first publication in English about the Flying Geese Model was in the early 1960s.

Philippines, where the ADB headquarters is located, has reportedly performed poorly among ASEAN recipient countries surveyed by the ADB. In the Country Assistance Performance Evaluation in the Philippines (ADB 2003), the performance audit reveals that of the total 36 post-evaluated, ADB-assisted projects in the Philippines 43% of the public sector projects are rated successful, 36% partly successful, and the remaining 21% unsuccessful. This performance places the Philippines below the performance average of all developing member countries of the ADB. Looking back at Tables 4a and 4b, the cumulative OCR lending to the Philippines has a positive relationship with one of the effort-related measures. The absence of such positive relationship in cumulative ADF loans, however, is conspicuously missing. A closer analysis of the relatively poor performance of ADB lending to the Philippines is the subject of ongoing research.

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