

ADB's Response to Financial Crises and Lessons from JFPR

Session 1: Japan Fund for Prosperous and Resilient Asia and the Pacific (JFPR) Anniversary Event

Cyn-Young Park

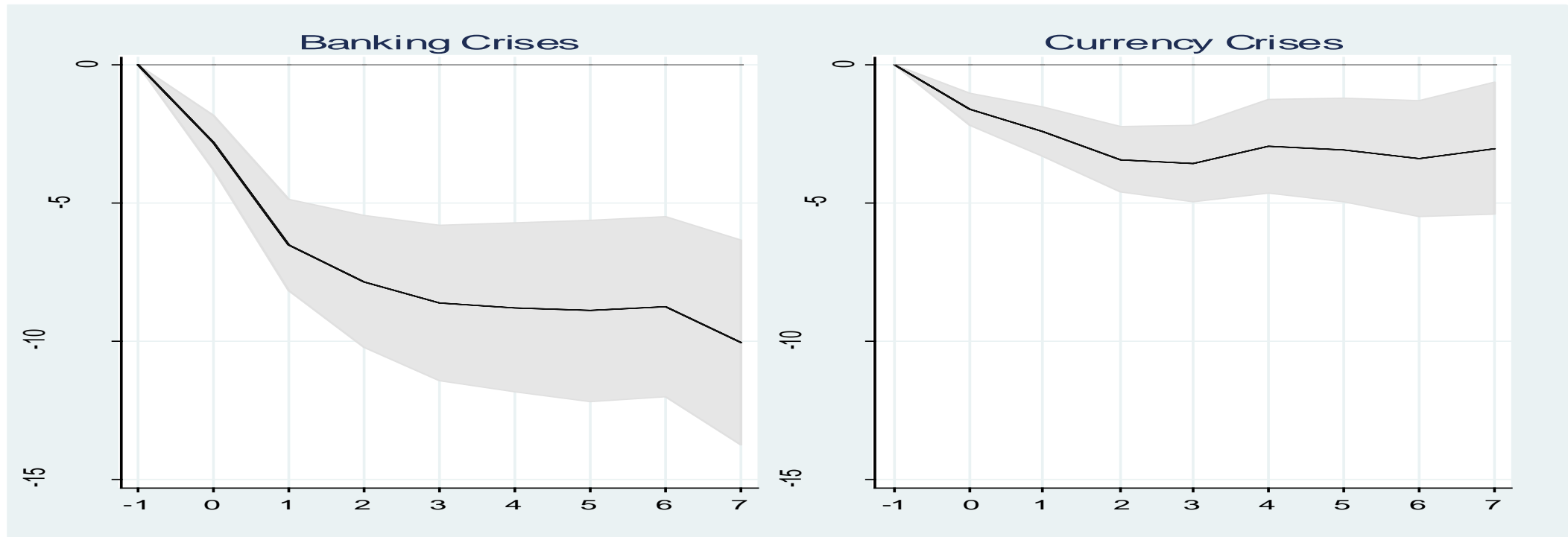
Director, Regional Cooperation and Integration Division,
Economics Research and Regional Cooperation Department, ADB



Why worry about financial crises?

Because they can have large and long-lasting effects on the real economy

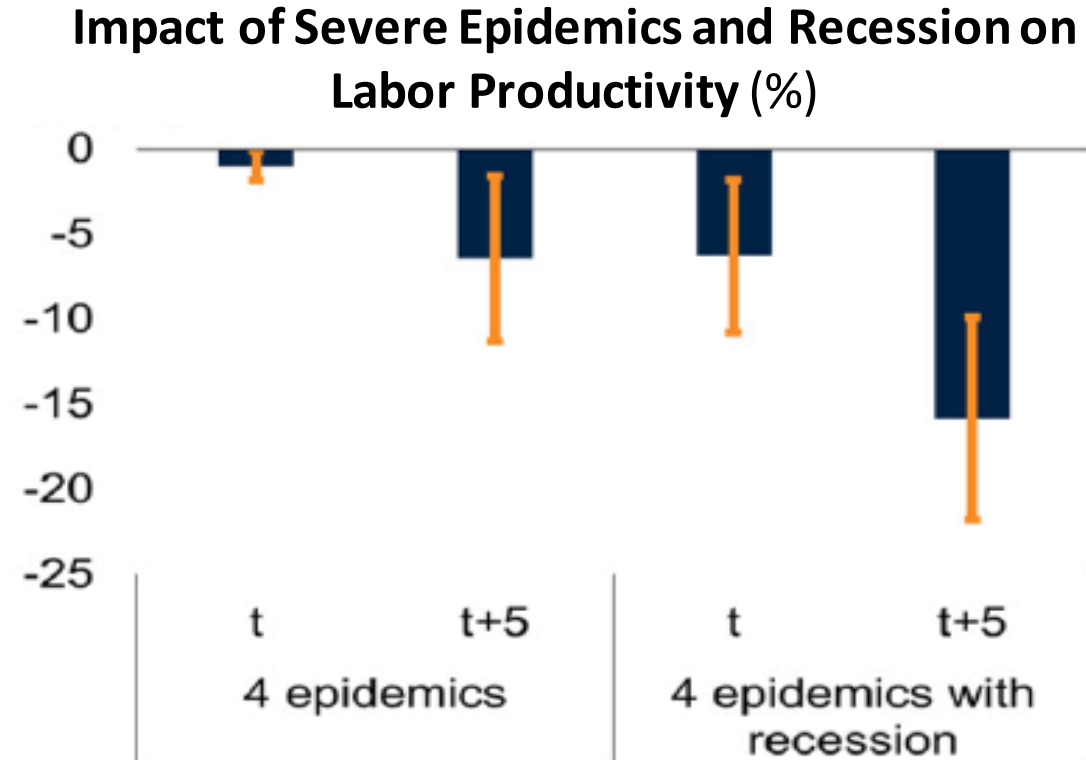
Output Evolution after Banking and Currency Crises
(Percent of pre-crisis trend)



Note: Figure reports mean difference from year $t = -1$; 90-percent confidence interval for estimated mean; first year of crisis at $t = 0$; years on x-axis.

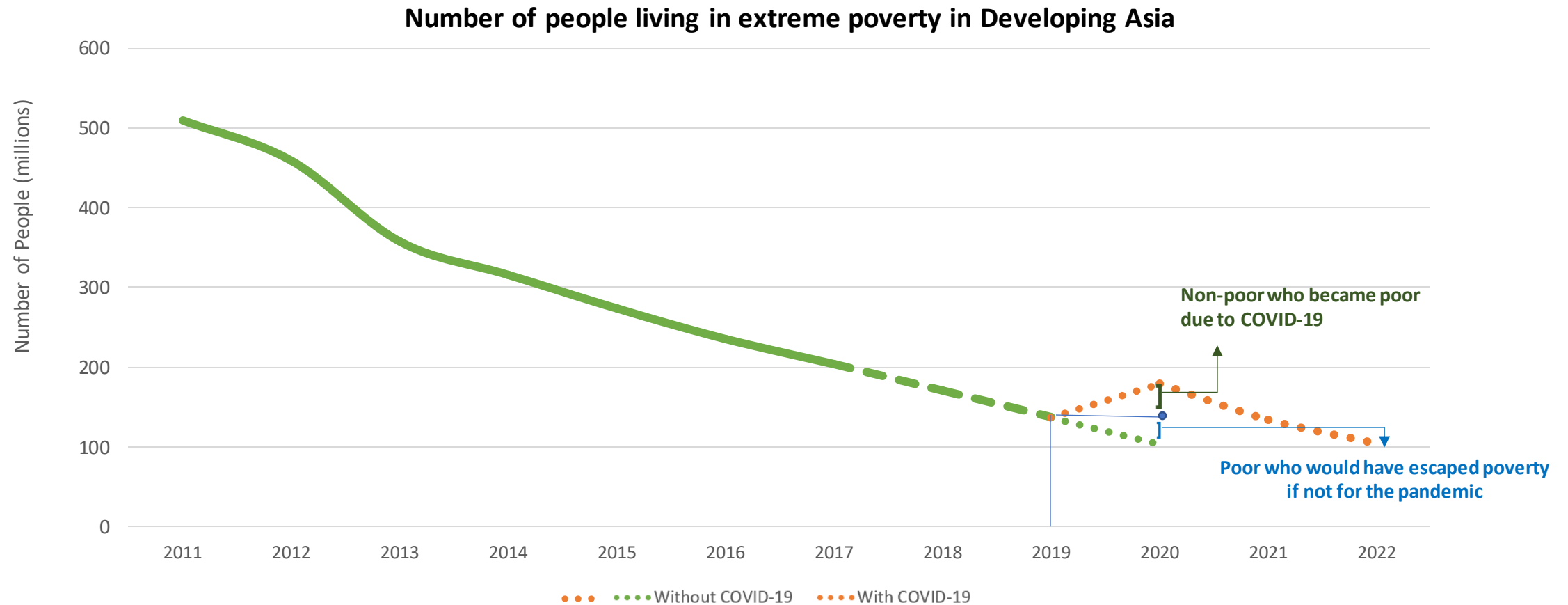
COVID-19 could leave lasting impact on growth

- Slowest growth in 6 decades for Developing Asia
- Labor productivity could fall from disability, health issues, and education outcomes
- Changing human behavior/interactions to affect certain industries
- Disproportionate impact on the poor and socially vulnerable



Notes: Bars show the estimated impacts of the four most severe biological disasters since 2000 on labor productivity. Orange lines display the range of the estimates with 90 percentile significance. The four epidemics considered are SARS (2002-03), MERS (2012), Ebola (2014-15), and Zika (2015-16). Swine flu (2009-10), which coincided with the 2008-09 global financial crisis, is excluded to limit possible confounding effects. The sample includes sample of 116 economies: 30 advanced economies, and 86 emerging markets and developing economies.
Source: World Bank. *Global Economic Prospects—Pandemic, Recession: The Global Economy in Crisis*. Washington, DC.

Additional ~75–80 million poor in 2020 (vis-à-vis no COVID) set back poverty reduction by 2 years



Sources: World Bank's PovcalNet Database (June 2021 update) and Asian Development Bank estimates.

Notes: 'Developing Asia' refers to 35 DMCs for which data needed for calculations are available. Estimates for poverty in Developing Asia in 2018 and 2019 (as represented by dash lines) were interpolated because WB's PovcalNet Database does not provide baseline household income distribution data for India, an economy that accounts for a significant fraction of the region's poor for these years.

Outline

- ADB's responses to financial crises (Asian financial crisis of 1997-98 and global financial crisis of 2008-09)
- JFPR responses and how it complemented ADB's
- Results, lessons learned, and recommendations for future interventions

ADB responses to the Asian financial crisis

1

▶ Emergency programs in crisis-affected economies

	INO	KOR	THA
Increased policy-based lending, primarily for provision of liquidity support	✓	✓	✓
Reform-focused programs in the public sector and financial capital markets	✓	✓	✓
Mitigation of social impacts through budgetary/project support and policy conditionality related to transfer payments and social expenditure budgets	✓		✓
Trade finance facility to help enterprises overcome problems in accessing export finance			✓

ADB responses to the Asian financial crisis

2

► Policy reforms, research, and advocacy

Formed the **Regional Economic Monitoring Unit (REMU)** to carry out regional monitoring

Launched the Asia Recovery Information Center website—data portal on crisis-affected economies

- Developed a prototype early warning system of financial crises
- Supported the Asian Bonds Markets Initiative and developed the AsianBondsOnline website

Sponsored **knowledge products and services** on AFC

Established the **ADB Institute** to carry out policy research and build capacity in DMCs

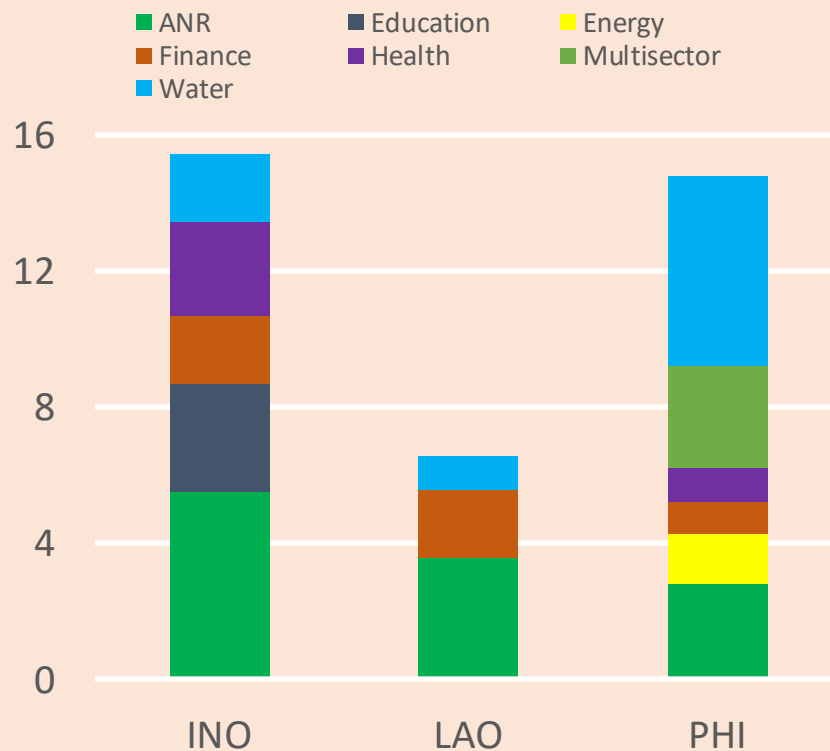
► Support for regional financial initiatives, particularly in ASEAN+3

ASEAN+3 Chiang Mai Initiative (CMI), Economic Review and Policy Dialogue (ERPD), Asian Bond Markets Initiative (ABMI), ASEAN+3 Macroeconomic Research Office (AMRO)

JFPR-funded projects post-AFC

Created in 2000, the Japan Fund for Poverty Reduction (JFPR) aims at mitigating the impact of the 1997 Asian financial crisis on the **poorest and most vulnerable groups**

**ADB-Approved JFPR Projects By Sector—
AFC-Affected Economies (\$ million, 2000-2007)**



ANR = Agriculture, Natural Resources, and Rural Development.
Source: ADB, Cofinancing Database (accessed 20 June 2022).

Projects in AFC-affected economies in 2000-2007 went mostly to the social sector, uplifting and improving livelihood, health, and education

- Agriculture received the highest allocation, mostly going to livelihood projects (70% of \$5.5 million allotment in Indonesia; and all of the \$3.6 million in Lao PDR and \$2.8 million in the Philippines)
- Health projects include food fortification for the poor (INO) and social protection for poor women vendors (PHI)
- Education project in Indonesia supported community-based education for the poor

Finance projects funded microfinance in INO and LAO, and financial cooperatives and microinsurance in PHI

Japan trust funds supported interventions to directly address and prevent future crises

Based on lessons from AFC, Japan trust funds supported the **ASEAN+3 Economic Cooperation Framework**

- Establishment of the **ASEAN+3 Macroeconomic Research Office (AMRO)** to strengthen the region's multilateral currency swap arrangement (Chiang Mai Initiatives)
- Support for the **Asian Bond Market Initiatives (ABMI)** to facilitate the region's local currency bond issuance
 - Launch of the ***AsianBondsOnline*** website
- Development of ASEAN+3 regional monitoring and surveillance systems
 - Creation of the prototype **early warning system** software (VIEWS)

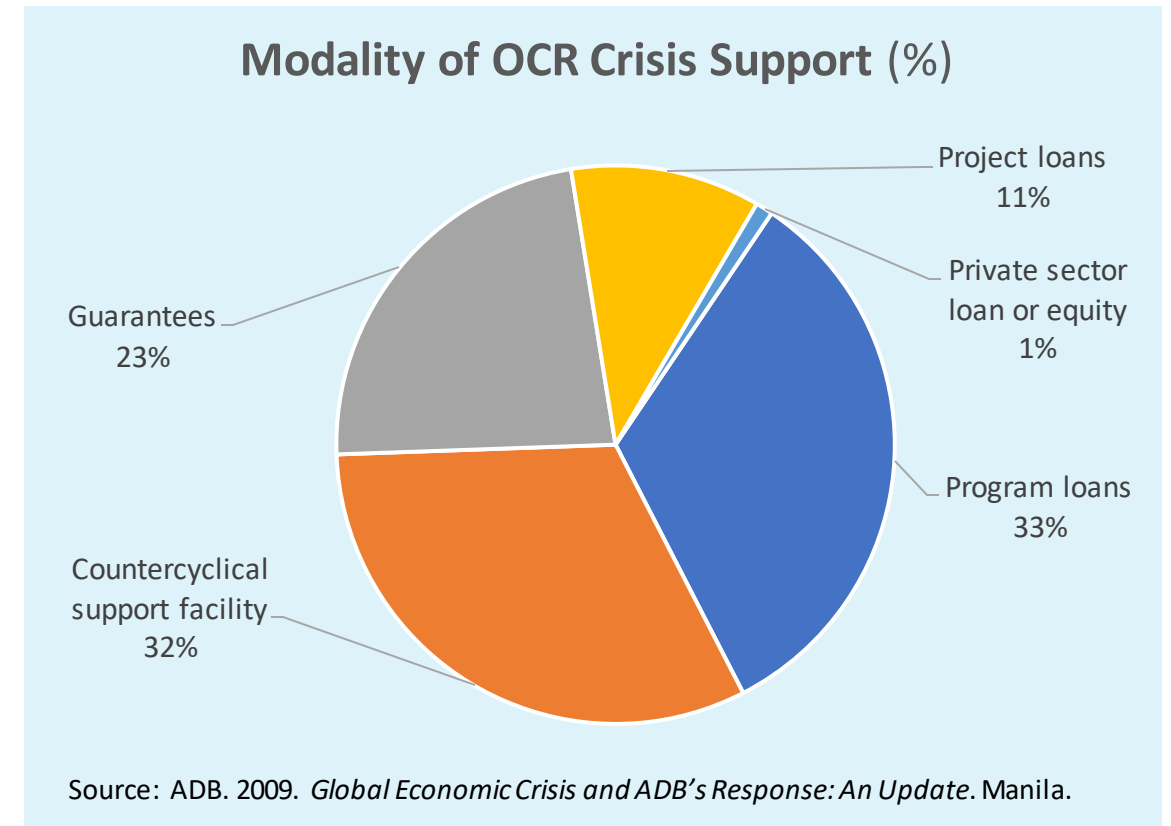
Some key project examples

Year Approved	Project Name	Cofinancer/ Amount (\$ million)	
2004	Asian Bonds Online Web Site	JFICT	2.4
2007	Enhancing the Capacity of Selected ASEAN+3 Countries for Assessing Financial Vulnerabilities	JSF	0.6
2008	Harmonization of Bond Standards in ASEAN+3	ICFF	0.5
2009	ASEAN+3 Regional Guarantee and Investment Mechanism (Phase 3)	ICFF	1.4
2010	Improving Liquidity of Bond Market in ASEAN+3	ICFF	1.3
2010	Asian Bonds Online Website Project, Phase III	JFPR	1.0
2010	Promoting an Interlinked ASEAN Capital Market	ICFF	1.5
2010	Broadening Investor Base for Local Currency Bonds in ASEAN+3	ICFF	1.1
2011	Supporting and Enhancing Regional Surveillance for ASEAN+3 and the CMIM	ICFF	1.1

ADB responses to the global financial crisis 1

► Mobilized resources quickly to support emergency needs

- Total OCR funds amounted to \$7.8 billion over 2008-2010
- Additional \$400 million ADF commitment to help ADF-only economies
- Total of \$12.9 million for 15 TA projects was programmed as crisis response
- Cofinancing for ADB-approved projects increased from \$1.5 billion in 2008 to \$3.9 billion in 2009



ADB responses to the global financial crisis 2

► Established the Countercyclical Support Facility

- During the GFC, MDBs were urged to provide countercyclical lending to complement IMF resources
- In 2009, the CSF was established to assist DMCs in borrowing from ordinary capital resources
- Initially it was introduced as time-bound instrument; later in 2011, it was mainstreamed as ADB's regular crisis response instrument
- Unlike crisis instruments of other financial institutions, CSF requires fiscal stimulus (rather than austerity) at macro level without strictly imposing structural reform conditionality at micro level

Usage of CSF in response to GFC

- **2009** Bangladesh, Indonesia, Kazakhstan, the Philippines, and Viet Nam each borrowed \$500 million from the CSF
- **2012** Mainstreamed CSF used as precautionary loan to Indonesia (\$500 million)
- **2015** CSF loan to Kazakhstan (\$1 billion)
- **2016** CSF loan to Azerbaijan (\$500 million)

ADB responses to the global financial crisis 3

▶ Provided support to both public and private sectors

Public sector

- offered sustained external financing for ongoing and planned development projects and programs
- mitigated the social impacts of the crisis by strengthening social safety nets and implementing programs and projects that help create demand, generate employment, and build private sector confidence

Private sector

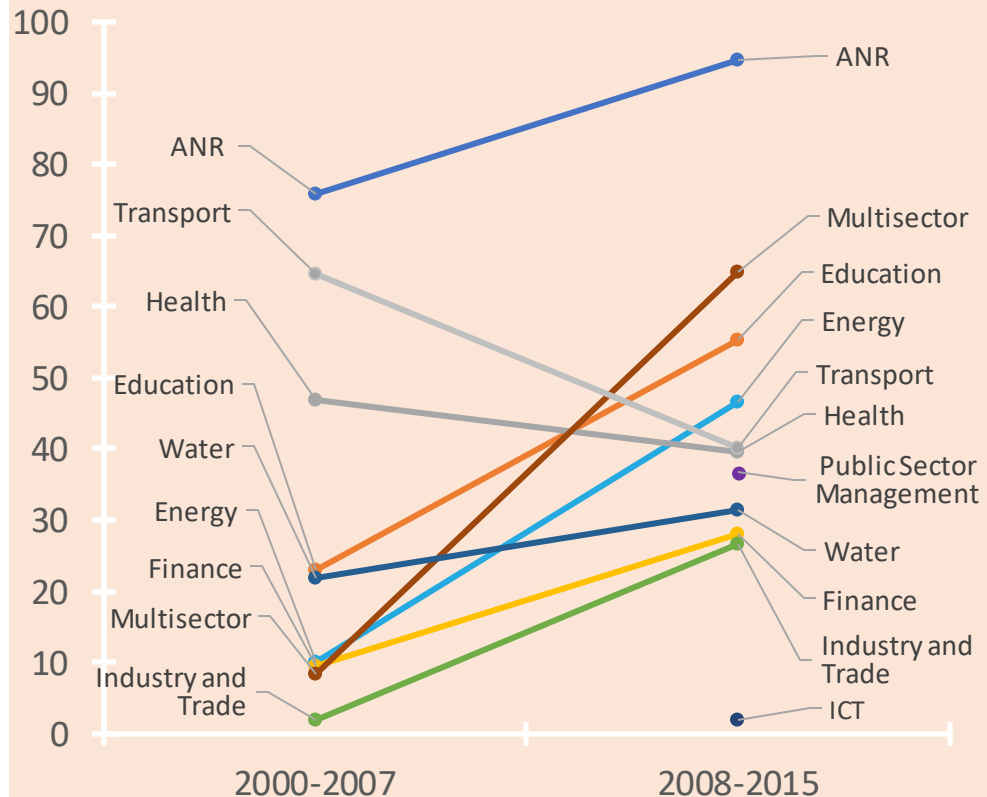
- Focused on rebuilding business confidence, providing incentives for private sector investment, and facilitating trade finance

▶ Strengthened regional cooperation, policy advice, and knowledge sharing

- Through technical assistance, ADB intensified its support to DMCs to build their institutional capacity and support for policy analysis to help economies cope with crisis
- ADB also continued to provide TA support to improve economic surveillance and economic monitoring at the regional, subregional, and national levels

JFPR-funded projects in response to GFC

ADB-Approved JFPR Projects By Sector—
(\$ million, post-AFC vs post-GFC)



ANR = Agriculture, Natural Resources, and Rural Development.
Source: ADB, Cofinancing Database (accessed 20 June 2022).

JFPR-funded projects, in response to GFC, focused on **mitigating the social impact** of the crisis through increased allotments to:

- **Livelihood**—around half of total allocations for agriculture, natural resources, and rural development
- **Education**—mostly skills development to boost employment opportunities
- **Energy**—improved access to electricity to poor households or rural areas
- **Finance**—allotments tripled over the two periods, with new projects on capital markets, SME finance, and financial regulation

JFPR also expanded its scope to include technical assistance grants to strengthen **public sector management** (which includes facilitation of public-private partnership, capacity building, and strengthening of regional cooperation)

Japan trust funds continued to address remaining financial vulnerabilities in the region post-GFC

Capital market development

- 2012: Enhancing Efficiency of the Capital Market (JFPR, \$0.8M)
- 2013, 2017, 2020: *AsianBondsOnline* Website (ICFF, \$1.5M/\$1.5M/\$2.0M)
- 2016: Developing Capital Market (JFPR, \$0.5M)
- 2020: Promoting an Interconnected, Inclusive, and Resilient ASEAN Capital Market (ICFF, \$1.5M)

Financial monitoring and surveillance

- 2016: Enhancing Regional Capacity for Economic Surveillance and Financial Vulnerability Assessment (ICFF, \$1.2M)
- 2020: Building Financial Resilience and Stability to Reinvigorate Growth (ICFF, \$0.9M)

Financial cooperation

- 2012: Harmonization of Bond Standards and Market Practices in ASEAN+3 (ICFF, \$1.2M)
- 2014: Regional Standardization of Bond Issuance Framework and Transaction Flows (ICFF, \$1.2M)
- 2017, 2020: Support for ASEAN+3 Bond Market Forum under the New Asian Bond Markets Initiative Medium-Term Road Map (ICFF, \$1.6M/\$1.8M)

Lessons learned from past crises

Broaden JFPR assistance to build more resilient, sustainable growth in 4 key areas



Thank you!

Cyn-Young Park

Director, Regional Cooperation and Integration Division,
Economics Research and Regional Cooperation Department, ADB

 **ADB-JAPAN FUNDS WEEK**
27 JUNE – 1 JULY 2022
TOWARDS A PROSPEROUS AND RESILIENT ASIA AND THE PACIFIC



From
the People of Japan