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ADB at 50, much to celebrate and to do

Gains made have been impressive, but the development bank must adapt to new realities and multiple challenges

By **VENKATACHALAM ANBUMOZHI**

Japan hosted the Asian Development Bank's (ADB) 50th annual meeting from May 4-7 in Yokohama. The bank was founded in 1966, and during the past half-century its primary focus has evolved from promoting agricultural production to supporting large infrastructure projects and the strengthening of regional connectivity programs.

As a result, many countries in Asia have succeeded in establishing a virtuous cycle of fast infrastructure development, economic stability and prosperity.

Gains so far have been impressive, but still, across a region which has more poor people than Africa and Latin America, the benefits of infrastructure have not been fully realized as the composition of investment flows is highly uneven.

Foreign direct investment remains focused on natural resource extraction, leaving huge unmet needs in energy, water and transport infrastructure sectors. And the middle-income trap is very real and hard to solve. Clearly, there is a role for the ADB in addressing these issues.

The ADB has a unique set of characteristics that cannot be easily duplicated by other development institutions operating in Asia. Famous for its Asian characteristics and Japanese face, the ADB tends to be administered in a style that respects consensus and harmony.

Every president of the ADB to date has been Japanese, and the United States is the second largest non-borrowing shareholder. China, India and Indonesia's levels of ownership in the bank are the greatest among the borrowing shareholders, but their influence is still significantly less than either Japan or the US.

Japan has contributed roughly 50 percent of all the development funds for concessional lending in the past five years. On May 7 the Japanese finance minister, Taro Aso, pledged another $40 million for a new infrastructure fund. The multilateral nature of the ADB positions it well in terms of legitimacy, ownership and development effectiveness.

The ADB has the scale and credibility to play an important convening role between governments and the private sector. But it faces formidable challenges too.

First, lending from the ADB's market-based non-concessional finance window has been declining, which poses a major test to its business operations in the longer run.

As more countries are about to move into the middle-income category, it is difficult for the ADB to remain useful to them due to the increasing sophistication of their public administrations and the demand for the ADB to provide niche services that cannot be offered by other private institutions.

The ADB has not yet been able to adapt to this new reality, and as a result is not well positioned to support the fast-growing middle-income countries.

Second, there are delays in meeting project requests. Delays represent a significant opportunity cost, especially for projects with high economic and developmental impacts.

It should come as no surprise that some borrowers are willing to pay higher interest rates in exchange for accessing resources in a matter of weeks, rather than the two years or more between the beginning of loan preparation and the first disbursement by the ADB.

Slow procedures are the result of an Asian culture of risk aversion and an obsession with process, derived largely from mandates and controls.

Third, there is demand for new services from the multilateral financial institutions. Both low- and middle-income country officials increasingly seek out international knowledge and best policy practices as much as, or more than, pure financing. This is a key attraction of the World Bank, which to some extent offsets its lengthy and bureaucratic loan procedure.

The mid-term review of the ADB's Strategy 2020 framework highlighted knowledge solutions or products as critical. While this may be a laudable aim, it does not spell out how this will happen in operational terms. For recipient countries, it is not the volume of knowledge products that has been important, but their relevance.

Fourth is the issue of leveraging private sector financing. The ADB expects to increase its lending to 50 percent of the annual operations by 2020, although it is not clear how much is expected to be delivered in the form of non-sovereign lending.

A sharp increase in private sector activity should be matched by the ADB's internal human resource capacity. If not, it could weaken the overall portfolio of public lending.

Given the multiple challenges, the ADB should constantly reorient its business operations. It can overcome the obstacles it faces by starting work immediately on the following five agendas:

- Work toward more representative governance with a greater voice for Asian members. The ADB should remain an Asian bank, which requires that it give countries like China, India and Indonesia more influence in its operations. They have a unique opportunity to shape joint approaches to quality growth.
- Reform the lending approval process so that it seeks the minimum level of information and review required to achieve the developmental goals of poverty reduction. A streamlined risk-based approval process will be essential for the ADB to remain efficient.
- Do more to provide intellectual leadership in the region. Strengthen the role of knowledge departments to become centers of excellence on Asia-specific knowledge on poverty reduction, sustainability and infrastructure connectivity unique to the region and its needs. Focus on just-in-time policy briefs on key issues that the officials face; programmatic research products to address complex ongoing challenges; and more formal knowledge exchanges among member countries.
- Take a more active role in initiating projects that combine the strengths of the private sector and developmental plans with a strong economic rationale. The ADB staff — especially country directors and private sector specialists based in the resident missions — could be actively involved in selecting the private sector projects that suit the ADB's long-term strategic goals and targets.
- Keep the operational focus on inclusive sustainable growth and infrastructure connectivity, by playing a strong role in facilitating the development of policies, programs and cofinancing that are essential to reducing the gaps, estimated to be $8 trillion.

To do this, the ADB should maintain high-quality professionals. The bank is burdened by rigid staffing quotas and a hostile and opaque hiring process, which needs to be abandoned in favor of innovation, dynamism and adaptability.

The ADB has a competitive advantage over other old and new international development institutions. But it has to work harder with a clearer vision, greater confidence and more flexibility to maintain its legitimacy at a time of shifting power balances and the infrastructure needs of both the Asia-Pacific region and the world.

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