The Asian Development Bank
A Strategic Asset for the United States

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The Asian Development Bank (ADB) is the most important development institution in the Asia-Pacific region, addressing regional development problems using financing in the form of grants, loans, and advisory services.1 The ADB is one of two Asian regional development banks, the other being the Chinese-led Asian Infrastructure Investment Bank (AIIB). Both banks occupy the same space, have cofinanced numerous projects, and are subject to the economic volatility of the U.S.-Chinese trade war.

Since the ADB’s establishment in December 1966, the Asia-Pacific region has enjoyed one of the most extensive and durable economic expansions of any region or continent in the world.2 The region’s global share of GDP (based on purchasing power parity) skyrocketed from 10 percent in the 1950s to approximately 50 percent in 2019.

At the time of the ADB’s inception, Asia had a lower per capita GDP than Africa or South America. The 1960s was a crucial period of growth for Asia, known as the “Asian Miracle,” and marked the start of Japan’s high growth. Hong Kong, South Korea, Singapore, and Taiwan—known as the Four Asian Tigers—underwent sustained industrialization from the 1960s to 1990s. Policy reforms during the 1990s also led to the emergence of two of today’s largest economies—China and India. The overall economic outlook for the Asia-Pacific region continues to look strong for the next fiscal year (FY 2020). Emerging economies in Vietnam and the Philippines have predicted growth rates above 6 percent and are set to overtake the economies of Belgium and Switzerland by 2023.

The current development landscape in Asia is vastly different than it was in 1990. However, several barriers remain, preventing successful economic expansion. Extreme poverty and social inequalities persist—currently, 400 million people live in extreme poverty in the Asia-Pacific region, and 1.2 billion people are

1. Other development agencies in the region include the Asian Infrastructure Investment Bank (AIIB) and the China Development Bank (CDB). Bilateral partners operating in Asia include the Japan International Cooperation Agency (JICA), Australia, and the United States.
2. The Asia-Pacific region is defined as the 53 member and 9 associate member states in the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP).
considered vulnerable. Worryingly, 264 million people live on less than $1.90 a day. Rapid urbanization threatens the resiliency and quality of infrastructure. Pollution and environmental degradation threaten the population’s standard of living. Urban planning projects are underdeveloped and lack adequate private-sector funding. Climate change has accelerated the threat of natural disasters and exacerbates existing threats from cyclones, earthquakes, tsunamis, and monsoons. An aging population could shrink labor markets, increase the dependency ratio for workers, and lower productivity. Additionally, a significant gender gap persists in economic opportunity and social capital.

The ADB has made these challenges central to its agenda with its new long-term strategic framework, Strategy 2030, which outlines the institution’s areas of focus for the next decade and addresses the needs of its member countries (Box 1). The ADB’s vision for the Asia-Pacific seeks to address the region’s growing needs with efforts to make it more prosperous, inclusive, resilient, and sustainable. The key areas of operational focus include tackling social and gender inequalities, developing sustainable and quality infrastructure, mitigating and adapting to climate change, improving institutional capacity of governments, and furthering regional integration. The vision also seeks to improve and expand the ADB’s existing capabilities, as the creation of the AIIB has spurred the ADB to revamp its relevance and protocols and was among the developments that contributed to Strategy 2030. This policy brief discusses the ADB’s current role in the region and makes recommendations to shape the institution’s future operations.

BOX 1: ADB STRATEGY 2030

The future role of the ADB in the Asia-Pacific region was defined in 2018 by its new Strategy 2030. This strategy complements and supports the 17 Sustainable Development Goals set by the United Nations General Assembly in 2015 for the year 2030:

1. Addressing poverty and reducing inequality
2. Accelerating progress in gender equality
3. Tackling climate change and building climate and disaster resilience
4. Making cities more livable
5. Promoting rural development and food security
6. Strengthening governance and institutional capacity
7. Fostering regional cooperation and integration

Strategy 2030 offers a constructive direction for the ADB’s future operations. The promotion of innovative technology is among its guiding principles. To support it, the government of Japan announced in May 2017 that it would provide $40 million to the ADB to promote high-level technology to boost quality infrastructure in Asia.

The ADB’s Current Role in the Asia-Pacific Region

The ADB has 68 shareholding members, 49 from the Asia-Pacific and 19 from the Organization for Economic Cooperation and Development (OECD) (Figures 1 and 2). The membership is divided into non-borrowing and borrowing shareholders. As non-borrowing shareholders, the United States and Japan have majority ownership of the bank, at 15.6 percent each. Although the United States and Japan have the same stake in the bank, Japan has a key voice in the bank’s operational direction. Moreover, Japan is the largest
contributor to ADB funds, such as the Asian Development Fund (ADF), committing more than $12 billion since the fund’s inception. ADB members fund the ADF under periodic replenishments, which provide grants to 15 lower-income member countries of the ADB.

**Figure 1: ADB Borrowing and Non-borrowing Shareholders**

![Pie chart showing borrowing and non-borrowing shareholders]  

The largest borrowing shareholders of the ADB are China (6.4 percent), India (6.3 percent), and Indonesia (5.4 percent). There are 40 borrowing shareholders, and they contribute approximately 33.2 percent of the ADB’s total subscribed capital as of December 31, 2018.

**Figure 2: Largest Shareholders of the ADB**

![Bar chart showing largest shareholders]  

The ADB’s main function is to finance development projects in the Asia-Pacific region by providing loans, grants, and technical assistance to member countries. The ADB is the largest development bank in the region, with $21.6 billion in loans, grants, and other commitments (2018). Other regional players, such as the newly established AIIB, have lower commitments of $7.1 billion in 2018 (Figure 3). The bank departments are organized into sector and thematic groups, such as energy, education, or public-private partnerships (PPPs). Each department is composed of knowledgeable and expert staff who carry out directives from management.
In addition to the $21.6 billion in financial commitments, the ADB also mobilized $14 billion in cofinancing from bilateral and multilateral agencies and the private sector for projects to support developing countries. The main sectors in 2018 were energy, transportation, agriculture, and rural development. Top recipients of financing (all forms) in 2018 were: Bangladesh ($4.8 billion), Indonesia ($4.4 billion), China ($3.6 billion), and Uzbekistan ($2.2 billion). Although the bank lacks an explicit fragile states policy, it has given significant amounts of aid to Afghanistan in the form of grants and disaster risk reduction (DRR) resources. The Afghanistan Infrastructure Trust Fund (AITF) is an important investment vehicle for ADB-financed projects in Afghanistan.

The ADB has been instrumental in promoting regional collaboration to stabilize and connect financial systems and spur PPPs for infrastructure investments. The former president of the ADB, Takehiko Nakao, recognized that the institution must play a larger role in mitigating the effects of climate change in the region; developing safe, durable, and quality infrastructure systems; filling the gap of insufficient education in developing and target countries; and promoting regional collaboration. This is a task that the ADB cannot fulfill on its own. The diverse and constantly evolving needs of its member countries call for greater collaboration in projects and policy dialogue with the developing member countries (DMCs) to address problems that are within the capabilities of the bank.

In November 2019, the ADB introduced differentiated pricing for higher income countries, which will become effective on January 1, 2021. These terms are for developing member countries (DMC), which borrow only market-based loans from the ADB. The recipients of the funds are divided into three groups based on their per capita income levels and credit worthiness. Group A countries are eligible for Asian Development Fund grants and concessional loans and Group B countries have access to both concessional and market-based loans. Both Group A and B countries receive financing terms that are composed of a combination of grants, concessional loans, and market-based loans. Group C countries have access to market-based loans only. In comparison to Group A and B countries, Group C countries have a wider spread of per capita incomes but are offered the same financing terms. Within this new framework, Group C countries are divided into sub-groups based on gross national income, which gives vulnerable developing countries, like small island nations or countries transitioning from Group B to C, better terms. The income increase
from the pricing reform will go to existing Technical Assistance Special Funds in ADB's DMCs and to build reserves that will expand the ADB's lending capacity.

The ADB Amid Three Powers: Japan, China, and the United States

i. The ADB's Relationship with Japan

As a founding member and majority stakeholder of the ADB, Japan has played a crucial role in directing the ADB's objectives since its inception. Japan holds 12.756 percent of total membership votes and 19.612 percent of total regional membership votes, wielding considerable influence over other member countries. The first president of the ADB, Takeshi Watanabe, and every subsequent president of the ADB has been Japanese. Masatsugu Asakawa, the former Japanese vice finance minister for international affairs, was unanimously elected as the ADB's tenth president on December 2, 2019. He will officially assume office on January 17, 2020. Asakawa was the second highest ranked ministry bureaucrat before taking the role at ADB, and was lauded internationally for fighting tax dodging by multinational corporations during his time as chair of the OECD Committee on Fiscal Affairs. One of the objectives of the new president is to navigate collaboration and competition with the AIIB, as there have been concerns countries that received AIIB loans are falling into heavy debt.

Although the theme and focus of ADB operations overlap substantially with those of Japanese development agencies, the bank does enjoy a large degree of autonomy from the politics of its major shareholder. With the largest financial stake in the bank, Japan is deeply committed to the success of the ADB's projects. Japan is the top contributor to the ADB's operations, specifically its special funds ($14.83 billion since joining in 1966), the Technical Assistance Special Fund ($692.0 million), and the Japan Special Fund ($973.8 million). In addition, Japan contributed to financing commitments of $8.75 billion between 2014 and 2018. There are opportunities, however, for Japan to leverage the private sector and undertake more cofinancing projects.

With increasing competition between the ADB and the AIIB, Japan can use the ADB to strengthen its regional and global reputation by claiming more personal ownership of the bank. Japan can cooperate closely with its other majority shareholder, the United States, for increased efficiency of bank operations while also recognizing that other member countries are keenly interested in improving the efficiency of ADB operations.

ii. The ADB's Relationship with China

The historical relationship between the ADB and China dates to March 1986, when China officially became a member. Since then, the ADB has invested in thousands of projects in China, many of them focused on the construction of infrastructure. These projects include the Xiaoliu Railway Project and the Dalian Water Supply. As of 2018, the ADB committed $39.3 billion to various projects across China. This support included grants, technical assistance, and other forms of lending.

The ADB recently invested in a program in China aimed at confronting air pollution in major urban areas. The bank financed the Loan Program for Clean Bus Leasing, which has been finding ways to lease energy efficient or clean energy-powered buses. The Baoding Public Transport Corporation is one company that has taken advantage of the ADB-backed program, and it has registered hundreds of vehicles that run on clean energy sources. There is hope these investments in clean energy transportation could reduce greenhouse gas emissions in China by 1.3 million tons by the end of 2019.
As the bank's second-largest sovereign borrower (excluding cofinancing), China has received considerable infrastructure assistance from the ADB. This comes at a time when the ADB has gradually shifted its focus to poorer inland provinces and to issues such as environmental protection, elder care, and key factors contributing to conflict. This is partly because of the growing prominence of the China-led development bank, the AIIB. The AIIB is a fast-rising actor within the region, with 93 member countries and $8 billion in total investments as of 2018. China's increasing global presence requires rethinking and reevaluating the ADB's relevance, both in terms of lending and its obligation to shareholders.

iii. The Asian Infrastructure Investment Bank

The creation of two new China-led multilateral banks—the AIIB in 2016 and the New Development Bank (NDB) in 2014—has prompted the ADB to rethink its strategic priorities and its operational protocols. The AIIB primarily focuses on infrastructure, cross-border connectivity, and private capital financing. In its first three years, the AIIB has already financed $8 billion in projects, investing mostly in the Asia-Pacific region. The NDB, established by the BRICS countries (Brazil, Russia, India, China, and South Africa), promises faster processes and greater investments in the Asia-Pacific region. The Belt and Road Initiative (BRI) has been seen as China's geopolitical project in the region and a leading foreign economic policy priority. The AIIB provides some support to the BRI.

The increasing importance of the AIIB has sparked reactions from the United States and Japan, the only G7 members not to have joined the AIIB. The two countries have called for the ADB to end its loans to China, its fourth-largest recipient, stating that China is rich enough that it is now loaning money to other countries. In response, the ADB will increase borrowing costs for middle-income members such as China, a decision that seems political and against the ADB's neutral role but is part of the bank's initiatives to reform its lending practices. Part of the reasoning behind the increase in rates is fairness. Countries such as China can afford slightly higher borrowing costs. However, the ADB's decision to ramp up its investments in Pacific islands is seen by some as a move to curtail China's spread across the region while also realizing its commitments in Strategy 2030. China's influence within the bank is minimal, but shareholder relationships have evolved, and a strong focus on the relationship between the AIIB, its ties to the Chinese government, and the ADB has emerged.

Despite competition between the two multilateral development banks, the ADB and AIIB have cofinanced more than $700 million worth of public-sector projects in Pakistan, Bangladesh, Georgia, and India. The ADB has repeatedly acknowledged a strong desire for cooperation with the emerging AIIB, a sentiment that has been reciprocated. Although no major future projects have been delegated, former ADB president Takehiko Nakao announced the signing of a Cofinancing Framework Agreement for Sovereign Operations with the AIIB in March 2019. Moreover, the AIIB focuses more on infrastructural projects, whereas the ADB possesses a more general approach to development, not limited to infrastructure. It is these different approaches, combined with the vast need for infrastructure financing in the region, that have fostered cooperation between both development banks.

To further mitigate concerns about conflict and competition among institutions, the ADB signed a memorandum of understanding with both the AIIB and the NDB in 2016. All three banks have posited their stances toward regional cooperation and synergy, and the AIIB has emphasized economic criteria, and not political interest, as a basis for deciding which projects to invest in. Both the trilateral memorandum and the AIIB's apparent commitment to a sustainable and inclusive development approach have calmed any fears among international stakeholders about China's potential conflict of interest in development finance for the region.
**BOX 2: TAIWAN AND THE ADB**

The ADB refers to Taiwan as Taipei, China. Taipei joined the ADB in 1966 and is a founding member, but it is also considered a Developing Member Country. Taipei has contributed **$1.6 billion** in capital subscription as of December 31, 2018, and **$122.3 million** to Special Funds since joining the ADB. Companies and consultants have since gained a total of **$873.36 million** in procurement contracts involving goods and services originating from Taipei on ADB-financed projects. Cofinancing commitments with Taipei between January 1, 2014, and December 31, 2018, included four commercial projects of **$147.3 million** and 953 contracts worth **$825.6 million** that have been awarded to contractors and suppliers since 1966.

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**The ADB’s Relationship with the United States**

The United States has been a contributing member of the ADB since its founding in 1966. As of 2018, the United States has **$23 billion** committed in overall capital subscription, with an additional **$1.9 billion** committed to cofinancing projects. The cofinanced programs have been spread across several countries in the Asia-Pacific region, including India, Vietnam, and Nepal. It has invested in multi-donor trust funds, such as the [Afghanistan Infrastructure Trust Fund](#), which has pursued private-sector cofinancing for infrastructure improvements. The total U.S. commitment to this fund stood at **$153.7 million** at the end of 2018.

The United States has pursued partnerships with the ADB through its bilateral development finance agencies and continues to look for new ways to work with the ADB. The United States Trade and Development Agency (USTDA) launched a global procurement initiative with bankable projects for the Asia-Pacific region, which presents an opportunity for future collaboration with the ADB. The Overseas Private Investment Corporation (OPIC) worked alongside the ADB to cofinance a [bank and a private equity fund](#), both located in India. The new Development Finance Corporation (DFC) could continue this partnership in the coming months. Lastly, American corporations have worked with the ADB to act as [important capital sources](#). General Electric funded power projects in both Indonesia and Bangladesh, and Citibank is still the ADB’s partner in a regional microfinance program.

As one of the largest non-regional shareholding members in the bank, the United States has been very supportive of the ADB. In 2017, President Trump said in a [speech](#) at the Asia-Pacific Economic Cooperation (APEC) forum that “we are calling on the World Bank and the Asian Development Bank to direct their efforts toward high-quality infrastructure investment that promotes economic growth.” The United States benefits from membership in the ADB as a mechanism to achieve its economic and political interests and counterbalance China’s influence in the bank and the Asia-Pacific region. The Trump administration unveiled its new [Indo-Pacific Strategy](#) in 2019, which puts forth a robust plan to strengthen partnerships between a broad regional coalition of partners and allies to create a more free and open Asia-Pacific region. The United States, through its membership in the ADB and with its Indo-Pacific Strategy, seeks to compete with China as a security and economic partner of choice in the region.

**Tackling the Asia-Pacific’s Challenges**

Despite significant progress in reducing poverty and increasing economic growth in the Asia-Pacific region, several development challenges hinder the region’s economic and social potential. The ADB, through its 2030 Strategy and financial capabilities, should focus on financing quality infrastructure, leveraging private-sector investment, instituting internal reforms, increasing the number of staff, strengthening trade intraregional relationships, and promoting gender equality as its core priorities.
By 2030, the Asia-Pacific region is expected to be home to two-thirds of the global middle class. To adequately accommodate this growing demographic, the region must fulfill its annual infrastructure investment need of $1.7 trillion, about half of which is projected to go unmet each year. The ADB will play a critical role in infrastructure-adjacent issues, such as climate change mitigation and poverty reduction. Specific areas of infrastructure development include transportation, energy, sanitation, water, and information and communications technology (ICT).

Lack of financing is a leading contributor to the infrastructure development problem. Asian governments alone cannot shoulder the costs of sustaining the increasing needs for infrastructure investment. They must work in tandem with the private sector to address the issue. In this regard, the ADB can be a trusted partner to governments and private-sector actors to help prepare a pipeline of bankable projects, ensure transparency in procurement and a more streamlined negotiation process, and provide financing tools. The challenges of attracting private investment to infrastructure in the Asia-Pacific region have been identified at multiple levels. At the government level, roadblocks include a lack of long-term political commitment, legal and regulatory barriers, and weak project pipelines. At the investor level, challenges include a lack of expertise and knowledge to draw from in the infrastructure sector; miscommunication and misperception of projects; a short-term outlook on projects; negative perception of the return value of infrastructure investments; and a lack of transparency and available data in the sector of focus. These risks turn away private sector interests and decrease the likelihood of materializing investments in the sector.

A related challenge to infrastructure development is incorporating climate change safeguards to increase investment resilience to changing weather and climate patterns. Incorporating these mitigation efforts into the investment budget and policy direction has become a priority for the ADB to achieve sustainable development in the region. The Asia-Pacific region consistently bears the brunt of climate change effects, suffering from periodic flooding, droughts, and storms. Between 2007 and 2016, average damages from natural disasters in the region were estimated at $76 billion a year, with costs only increasing with time. Moving forward, investment that incorporates durable and climate-resilient infrastructure into its priorities to curtail the damage will raise the average yearly investment need from $1.5 trillion to $1.7 trillion. This cost is, however, necessary to achieve sustainability for future investments in the region. The ADB already has committed to providing $80 billion of its own resources to finance climate mitigation and adaptation between 2019 and 2030.

Lastly, the rapidly aging population in some parts of the region could slow growth and achievement of the SDGs in Asia and the Pacific. By the 2030s, the Asia-Pacific region is expected to host more than 60 percent of the world’s population aged 65 and older. Countries with already rapidly aging populations, such as Japan, South Korea, and China, will soon have to rethink business strategies and policy direction to accommodate a drastic, inevitable change in demographics and subsequent losses in GDP and productivity. This shrinking of the workforce will entail higher health care costs, tightening of government budgets, increasing pensions, and an exacerbation of wealth inequality. Governments can mitigate the effects this will bring but only by having the appropriate foresight to put in place measures to care for and incorporate the aging population into their economies.

**Looking Ahead: The ADB in 2030**

To achieve its 2030 Strategy objectives, the ADB must undertake a series of upgrades to maintain the quality and breadth of its project portfolio while addressing the Asia-Pacific region’s pressing development needs over the next few years. From the operational (internal) side, these upgrades include designing a credible graduation policy for middle-income countries, staffing the institution appropriately, and increasing the number of results-based lending projects. From the thematic (external) side, upgrades include mobilizing private investment to develop quality infrastructure, fostering greater intraregional trade, and developing resilient infrastructure.
ADOPTING A CREDIBLE GRADUATION POLICY

The ADB’s graduation policy and threshold remains one of the bank’s primary inefficiencies. By 2020, most of the ADB’s DMCs will be classified as middle-income countries. This requires revising the list of countries that should receive the bank’s concessional assistance and which should move toward a more specialized financing approach. The operationalization of the 2030 Strategy should entail a revision of the graduation policy.

The graduation policy itself is a three-tiered system in which countries are placed into various categories until they meet three key benchmarks: GNI per capita, availability of capital flows, and a specific level of development. However, a graduation review process is automatically instituted once the country reaches the GNI threshold. The five developing members that have successfully fulfilled the graduation requirements are Brunei, Hong Kong (China), Republic of Korea, Singapore and Taipei (China).

In 2016, the ADB commissioned a report from the Overseas Development Institute (ODI) to revise its graduation policy using a strategic approach. ODI recommended several methods to improve this policy, specifically: a country-by-country case examination, differentiated pricing for each DMC based off its debt capacity, or a focus on tackling sub-regional inequalities caused by wealth disparity and considering small-island/small-economy exceptions.

STAFFING THE BANK APPROPRIATELY

In 2017, the ADB took an innovative step toward optimizing its balance sheet by merging its concessional and non-concessional balance sheets. The assets of the concessional loan window, the ADF, were brought onto the ordinary capital resources (OCR) balance sheet, thereby providing a significant increase to the bank’s equity. According to a Center for Global Development (CGD) report, this operation tripled its capital base and in turn allowed an increase of overall lending capacity by 50 percent, with no new capital from shareholders.

As the bank’s capital resources and operations increase, so too should its employee base. With the large uptick in financing capabilities, and the new, more specialized direction the bank is heading in, an enhanced human resource base would allow the bank to conduct more efficient operations and tackle more focused, country-specific issues in the region. With the merger of the bank’s lending arms, there is a fear that the quality of its projects may decrease as it takes on more operations, enabled by its expanded capital base.

Currently, the ADB has no plans to increase its operating or administrative budget and does not plan to increase its staff by more than 9 percent per year. By 2020, the staff-to-lending ratio of the ADB will be at the lowest levels in its history. To curtail the drop in quality this may entail, it would help to expand the employee base. Another concern with the merger is that it may provide less pressure for donors to provide the funding for technical assistance, which is a critical added value for the ADB’s lending activities. Furthermore, with the bank extending its reach into the Pacific, further staff decentralization from Manila should be considered. Improving proximity to lending partners would improve relationships with clients and support information gathering and the decisionmaking process.

Former president Nakao has advocated greater recruitment of women, which would help the ADB to become more knowledgeable about the country-specific challenges that women and girls face. Although 59 percent of ADB staff are women, the number of women in leadership roles is considerably lower. Promoting gender parity within the organization itself demonstrates the ADB’s commitment to its gender equality agenda.
**INCREASING THE NUMBER OF RESULTS-BASED LENDING PROJECTS**

In 2013, the ADB introduced the results-based lending (RBL) instrument in response to increasing demand from both governments and development partners. Through RBL, the ADB supports DMCs to design and implement government-owned programs. The RBL improves development effectiveness by linking financing only to agreed-upon and achieved outputs and outcomes and to developing local capacity. The RBL incentivizes governments and the ADB to make methodical choices during the design and implementation of these programs. The objectives of RBL are to: increase the local government’s accountability and incentives to achieve deliverable and sustainable results; improve the effectiveness and efficiency of government-owned programs and support country ownership; promote institutional development and reduce transaction costs; and ensure coordination when more than one development agency is involved in a program.

The instrument started with a six-year pilot from June 2013 to June 2019 and was officially approved on September 19, 2019. The findings from the pilot phase showed that programs must have a clearly defined scope and boundary. These projects are most likely to work when there already is extensive ADB involvement in the area, so that the program can benefit from the bank’s knowledge and ongoing work with the implementing agency. It also showed that RBL is more suited to long-term projects. Overall, the pilot showed potential for creating effective development partnerships and helped to strengthen country ownership and accountability. At the end of the pilot phase, the ADB approved 19 RBLs in 11 DMCs, with $4.8 billion committed across a range of sectors, including education, urban development, health, and more.

From the results of the pilot phase, it seems as though this model works, and works well (Box 3). By targeting existing networks and setting fixed long-term goals, the RBL program sets a strong foundation for success. The success of the program lies in its small scope—by only focusing on one area of improvement at a time, it ensures the goals can be met and change can be made. Additionally, by placing emphasis on the local governments and actors, the program ensures the countries have the tools to keep these programs running once the ADB exits. Recommendations include adopting the model to fit countries outside of Asia to expand the position benefits of the programs and developing a model that can work in regions where the ADB does not already have a network.

**BOX 3: SOLOMON ISLANDS:**

**SUSTAINABLE TRANSPORT INFRASTRUCTURE IMPROVEMENT PROGRAM**

The ADB has had success with several RBL projects. One example can be found in the Solomon Islands, where the ADB is helping the government to set out strategic objectives and develop effective transport infrastructure and services to support sustained economic growth and social development. The plan is scheduled from 2015 to 2020 and pools funding from government agencies such as the government of Australia’s Department of Foreign Affairs and Trade (DFAT). The program targets rural and urban areas and aims to strengthen country systems to improve industries such as agriculture and regional trade and expand socioeconomic opportunities for rural and urban communities.

**ii. External Reforms:**

**MOBILIZING PRIVATE INVESTMENT TO DEVELOP QUALITY INFRASTRUCTURE**

Implementing quality infrastructure, a concept promoted by the Japanese and American governments, should be a focal point of the ADB if it wishes to efficiently allocate its funds, which currently are insufficient to meet the Asia-Pacific region’s projected annual $1.7 trillion infrastructure investment needs. In-
troduced in May 2015 by Prime Minister Shinzo Abe, quality infrastructure is defined as durable, environmentally sustainable, and disaster-resistant infrastructure. The Ise-Shima principles serve as a roadmap for the implementation of quality infrastructure, targeting: effective governance, ensured job creation, social and environmental impacts, alignment with development and economic strategies, and effective resource mobilization (including through PPPs).

The ADB expects to continue to slowly increase its financing in the next few years and enlarge the share provided through private-sector operations. The ADB has set a target for one-third of its committed projects to come from its non-sovereign operations by 2024. Currently, most Asian countries rely on their governments to initiate and propose PPP projects. MDBs such as the ADB can assure greater efficiency in PPP cooperation by increasing transparency and fairness in procurement processes and project bankability to incite private investments. MDBs can standardize compliance and enforcement across the board.

In 2014, the ADB created the Office of Public Private Partnerships (OPPP) to provide transaction advisory services for PPP project preparation between governments and the private sector. The ADB can utilize these tools to facilitate infrastructure investment by facilitating PPPs. Expanding on the current flow of private capital going into infrastructure investment (which in 2014 was only 0.8 percent of the $50 trillion available in the region) will require an enabling environment capable of offering a legal, regulatory, and institutional framework for creating a pipeline of bankable projects into the new asset class. The ADB and regional MDBs can help governments in the region to offer sound and transparent procurement and effective project delivery and management to properly incite private capital to grow the region.

**SUPPORTING REGIONAL INTEGRATION THROUGH TRADE**

The Asia-Pacific region increasingly relies on its own regional capacities for development. Intra-regional trade and intra-regional foreign direct investment (FDI) in the region are on the rise, whereas global FDI has fallen since 2016. This trend is partly influenced by the 1997–1998 Asian Financial Crisis, the aftermath of which led to deepened financial cooperation within the region. This is an opportunity for the ADB as a credible and respected neutral actor to help countries expand their trade and investment linkages. For example, the ADB is currently serving as the secretariats for three sub-regional cooperation mechanisms that aim to invest in transportation and energy infrastructure and facilitation.

Trade cooperation through organizations such as ASEAN is increasingly necessary to link the developing economies of the Asia-Pacific region. Between 2006 and 2015, the ADB cofinanced 376 projects, worth $15.4 billion, in support of ASEAN integration; in this same period, the economies and GDPs of ASEAN members saw massive improvements. China has emerged as a major player in fulfilling ASEAN’s infrastructure connectivity needs. However, initiatives such as China’s BRI are coming under greater scrutiny as countries continue to develop and gain independence from Chinese investment. In a survey conducted in 2017 across ASEAN nations, 70 percent of respondents cautioned their governments against accepting BRI projects for fear of unsustainability and debt trapping.

As U.S. and Japanese trust toward China dwindles, the ADB can leverage its respected role in the region to bypass sovereign disputes and connect ASEAN economies with one another. ASEAN laid out its own “ASEAN Community Vision 2025” and has recognized actors such as micro, small, and medium enterprises (MSMEs) as key drivers of innovation, trade, and investment. The organization may not, however, have the capacity to foster an inclusive environment for these MSMEs. To generate an enabling environment for trade and investment for these vulnerable actors and mitigate their risks in the early stages, the ADB can make use of its diverse range of loans, guarantees, and technical assistance to encourage the development of these MSMEs.
DEVELOPING RESILIENT INFRASTRUCTURE

The ADB has made considerable efforts to mitigate and protect against the impact of climate change in its Strategy 2030. Recently, the ADB has shifted its DRR investments from solely structural projects to eco-based solutions, community-based resilience infrastructure, and projects that combine both. The ADB has also created a robust Green Bond program, which raised $5 billion since it was launched in 2015 and is only expected to increase since the ADB has made a commitment to scale up climate financing. Another avenue is contingent disaster funding (CDF), a financing option under the ADB’s policy-based lending that provides quick-disbursing and flexible sources of financing for DMCs affected by natural disasters until other sources of funding become available. A key aspect of CDF is that it allows the implementation of pre-disaster plans before the disaster hits and ensures a quick post-disaster response. By 2030, at least 75 percent of ADB committed operations (by number of projects, not value) will support climate change mitigation and adaptation.

To achieve Strategy 2030, the ADB needs to create strong partnerships with a variety of actors in the public and private sectors. The ADB’s experience shows that most barriers to successful climate change initiatives are informational, institutional, or policy based. It is working to get around these barriers by investing in capacity building, partnerships, and information and knowledge sharing. Despite a solid foundation through instruments such as Climate Investment Funds, where multilateral development banks have pooled $6.5 billion for climate action in developing countries and $2.5 billion for Asia and the Pacific, private-sector involvement is integral in gaining a quick and sustainable response to crises caused by climate change.

Conclusion

The approval of Strategy 2030 in 2019 has given a renewed focus, direction, and purpose to the ADB, identifying the most pressing issues to be addressed in line with the Sustainable Development Goals and the needs of its DMCs. However, the evolving geopolitical and economic tensions of the region with the rise of China call for a new role for the ADB.

The ADB could be instrumental in bolstering the Asia-Pacific region’s private sector, meeting its infrastructure investment needs through cofinancing and private investment, and reconnecting the region through the promotion of trade. Furthermore, the AIIB’s regional presence will force the ADB to rethink its priority areas for its future direction, policies, and operations. Internal reforms are needed, such as a credible graduation policy, appropriate staffing, and the promotion of results-based lending.

The ADB cannot tackle these problems alone. The steady increase in cofinancing and cooperation with other MDBs is a step in the right direction. These relationships should be compounded, and the capacities of each bank should be leveraged by a more focused division of labor to address the vast needs of the region.