

Event Report

**Adapting to a Changing Asia:
The Asian Development Bank's 2030 Strategy**

EIAS Briefing Seminar

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As a leading financial institution in Asia and the Pacific region, the Asian Development Bank (ADB) is dedicated to promoting social and economic development in the region. Guided by aims such as inclusive economic growth, environmentally sustainable growth, and regional integration in the Asia-Pacific region, the bank has made great progress over the last half century in poverty reduction and economic growth. Nonetheless, a lot more needs to be done to keep up with the rapidly changing world.

Facing various challenges as well as opportunities, the ADB has launched its Strategy 2030 through which it presents a constructively ambitious vision of its future in combining finance, knowledge, and partnerships. Further, the ADB will keep aspiring to continuously eradicate extreme poverty and expand its vision towards a prosperous, inclusive, resilient, and sustainable region.

Opening Remarks by

Mr Erik Famaey, Senior Associate, European Institute for Asian Studies

Getting the event under way, Senior Associate at EIAS, Mr Erik Famaey, kindly introduced this event's keynote speakers. Joining Mr Famaey on the stage were Mr Tomoyuki Kimura, the Director General at the Strategy, Policy and Review Department of the Asian Development Bank (ADB) and Mr Robert Schoellhammer, the representative of ADB's European office.

Following the introduction of the speakers, Mr Famaey highlighted the spectacular development promoted in the Asia and the Pacific, pointing out the economic growth of regional GDP that has been made. Asia and the Pacific accounted for 30 per cent of the world's GDP in 2000; the figure has reached more than 42 per cent in 2018. This progress would have been impossible to achieve without the engagement of the ADB, whose work has lifted hundreds of thousands of people out of poverty and improved the livelihoods of numerous people. As the most efficient and trustworthy regional development bank, the ADB has been playing a critical role in transforming Asia into a major driver of social development and economic growth. However, Mr Famaey remarked, Asia's economic rise has presented a series of issues to the ADB, many of which are likely to develop into future challenges for the institution. One of the major concerns is whether the ADB should continue to focus on poverty eradication due to the fact that half of the Asians now live in middle-income countries. This question has been increasingly asked in light of the fact that Asia's development model had been built mainly on a system of export-oriented manufacture and foreign investments. Another big challenge ahead, Mr Famaey continued, lies in technological competition. New technological inventions such as 3D-printing, artificial intelligence and robotics are changing the direction of manufacturing industry. In this regard, it is necessary for policy makers and development institutions to rethink current development models. The ADB has been concentrating on a support framework that primarily involves developing physical and institutional infrastructure in order to foster regional cooperation and better connectivity. Another problem is that countries that are most in need are often fiscally constrained, due to their inability to generate sufficient tax revenue. Quoting from the ADB's report, the Bank's next challenge focuses on how to balance the needs of low-income countries and those of more developed countries. Meanwhile, issues on the involvement of the private sector have also become a primary challenge for ADB. Moreover, the establishment of the Asian Infrastructure Investment Bank (AIIB) - another multilateral development bank, and its relations with the ADB has also caught much attention. In response to the changing needs of the region, the ADB launched Strategy 2030 to further develop a prosperous, inclusive, resilient and sustainable region. After briefly addressing these future challenges, Mr Famaey gave the floor to Mr Kimura for the keynote speech.

Key note speeches

Mr Tomoyuki Kimura, Director General, Strategy, Policy and Review Department of the Asian Development Bank (ADB)

Mr Kimura opened his speech by briefly introducing the history of the ADB. The multilateral financial institution was founded in 1966 with a total number of 67-member countries, of which 48 were from the Asia-Pacific region. The largest shareholders of the ADB are Japan and the United States, followed by China and India. Among the 19 non-regional member countries, 17 of them are European. Mr Kimura continued his speech by introducing the ADB's main Charter, which concentrates on facilitating small economies, promoting regional and sub-regional cooperation, and developing domestic bond markets in the region. The supporting framework of the ADB includes financial support, knowledge sharing and the development of partnerships. The ADB has been actively working with several different partners as well as with other financial institutions to mobilize and finance projects.

Moving on from the introduction, Mr Kimura went on to illustrate the development of the ADB's newly launched long-term plan – Strategy 2030, and its significance in addressing various challenges that the Asia-Pacific region is facing. Firstly, influenced by global trends, the region's development landscape has changed drastically, thus requiring the ADB to keep pace. Secondly, the ADB is called on to prepare differentiated responses and to react continuously to the growing diversities and aspirations of the Developing Member Countries (DMCs). Furthermore, it is obligatory for the ADB to align its own agenda with global development commitments such as the Sustainable Development Goals (SDGs), the Financing for Development agenda, the Paris Agreement on climate change, and the Sendai Framework for Disaster Risk Reduction. Lastly, the keynote speaker underlined the significance of strategically leveraging funds and partnerships to better mobilize the private sector to finance Asia and fill the 1.7 trillion infrastructure funding gap.

In accordance with the unfinished development agenda of Strategy 2020, the ADB will maintain its efforts to further eradicate extreme poverty. In response to the changing needs of the Asia-Pacific region, ADB launched Strategy 2030 and expanded its vision towards the creation of a prosperous, inclusive, resilient and sustainable region. Mr Kimura continued by recalling the ADB's value additions under Strategy 2030 and stressing the ADB's support to combine finance, knowledge, and partnerships to maximize the impact of development for its clients. In fulfilling the value-addition model, Strategy 2030 is guided by principles such as the employment of a country-focused approach, the promotion of advanced technologies, and the provision of integrated solutions. Given the fact that DMCs have diverse needs, uneven institutional strengths and resource availability, the ADB will customize its approach to meet the varying needs

of its diverse client base. In particular, differentiated approaches and integrated solutions were underlined by Mr Kimura in accordance with the unique situations and challenges of each country. For instance, for countries that are in fragile and conflict situations, ADB will offer institutional support, governance reforms, essential infrastructure and social services to help build resilience and promote reconciliation and reconstruction. The second target group is small island states that are especially vulnerable to climate change and natural disasters. For this group, the ADB will focus on building environmental sustainability, facilitating risk management, and strengthening connectivity, access to ICT and sea and air transport. With respect to low-income and lower middle-income countries, the ADB is committed to providing substantial long-term financing to support structural and systemic reforms. Another group that the ADB is concerned about is upper middle-income countries that are at different levels in terms of economic development, social challenges, access to capital markets and institutional power. ADB's focus for this group of countries will include private sector operations, targeted support for reforms in the financial sector and SOEs as well as activities to increase countries' resilience to shocks.

In order to achieve the goals of Strategy 2030, seven operational priorities will be delivered through public and private sector operations, advisory services, and knowledge support. First and foremost, the overarching priority is to eradicate remaining poverty and reduce inequality in urban and rural areas. Under such a commitment, the ADB will continue to support education and training, to generate job opportunities and to pursue health coverage for people in DMCs. Following the theme of equality, the second priority focuses on gender equality which touches upon women's economic empowerment, gender equality in human development, gender equality in decision-making and leadership and women's resilience to external shocks. Further, Mr Kimura mentioned strategies to tackle climate change. The core objective is to increase countries' resilience to disaster and to enhance environmental sustainability. Other priorities include making cities more livable, promoting rural development and food security, strengthening governance and institutional capacity and fostering regional cooperation and integration.

In continuation, Mr Kimura highlighted the key approaches that the ADB is going to employ to achieve its vision. Under Strategy 2030, the ADB will continue to expand its engagement with the private sector, aiming to move at least one third of ADB's operation into the private sector by 2024. This responds to the changing financing needs of some countries, while traditional approaches will be applied for countries that are unable to rely on the private sector. The next key approach is to catalyze and mobilize financial resources for development. With this approach, the ADB will help to develop individual projects and maximize the impact of resources, so that projects enjoy reasonable profits. The last approach is to strengthen knowledge service that has been highlighted as one of

the ADB's value additions. Acknowledging the disadvantage of pricing in financing competition with local banks and the shortage in expertise to implement strategies, the ADB needs to strengthen its non-financial value through disseminating knowledge, expanding knowledge partnerships, and facilitating institutional capacity by working closely with DMCs.

Mr Robert Schoellhammer, European Representative Office, Asian Development Bank

The second key speaker of the event was ADB European Office representative Mr Robert Schoellhammer. Mr Schoellhammer opened his remarks by thanking Mr Famaey for the introduction before briefly introducing himself. Mr Schoellhammer had rich experience in strategy projects in Asian countries before taking his position with the ADB, particularly in China and Mongolia. Mr Schoellhammer listed some examples of the ADB's practical work on improving the airport, telecommunication and heating in Mongolia in the early 1990s. Another example of the ADB's work in building international expertise is its cooperation with the Chinese government and Germany's KfW Development Bank to support efforts to improve air quality in the greater Beijing-Tianjin-Hebei area. Mr Schoellhammer indicated that the ADB will focus on the high-income countries' increasing demands for knowledge and technology in Europe, and upper middle-income countries' demands for sophistication in the Asia-Pacific region respectively.

After a brief introduction, Mr Schoellhammer mentioned that the ADB's total operations had reached \$32.2 billion in 2017. Among the total, \$20.1 billion was used for loans, grants and investments out of its own resources; \$201 million for technical assistance; and \$11.9 billion for co-financing bilateral and multilateral agencies and other partners.

Next illustrated was ADB's assistance in the Asia-Pacific region. It was highlighted that the ADB is working closely with Central Asian countries to ensure that investments are linked and connected with the EU's connectivity strategy in the region. As to sectors, the ADB has put most of its financial support into energy, followed by finance and transport. The primary intention of ADB's investments, unlike others' in the multilateral development bank community, is non-profit but sustainability oriented. In fact, investing in sustainability has helped buildup the ADB's reputation and trustworthiness.

Mr Schoellhammer continued his explanation of the ADB's strategy, discussing the operations in the private sector that the ADB has particularly focused on. First mentioned was that the private sector is the primary source of job creation and helps drive innovation and efficiencies. Employment has become one of its priority goals because it directly backs up countries' social security systems, Mr Schoellhammer emphasized. Under Strategy 2030, the ADB will strive to mobilize private resources to bridge the infrastructure financing gap of \$1.7 trillion per year. Specifically, private sector

transactions in infrastructure, financial services, clean energy, agribusiness, and other core sectors will be financed through debt and equity investments. Meanwhile, the ADB takes into account third-party capital credit through credit enhancement products and risk transfer agreements. Also mentioned was the need to invest in private equity and other structured funds and manage institutional capital in such funds on behalf of the ADB's clients. Another strategy is to actively manage the ADB's portfolio to ensure strong financial performance, high development impact, and strong compliance with environmental, social and governance safeguards. However, Mr Schoellhammer pointed out that each country has different challenges, thus each has a separate country partnership strategy. At the same time, country level strategy will be combined with regional strategy, but the fundamental rule is to consider the needs of every country or the region. It was also noted that the private sector needs to be linked with the ADB's work in the public sector. In special cases, it would be necessary to work on changing policies with governments if the existing policies prevented investments.

Mr Schoellhammer went on with some examples of the ADB's work in the private sector. First, he mentioned a solar power development project that ADB had assisted with a \$2MM loan together with a \$1MM loan from the Canadian Climate Fund. It is estimated that the project will expand the solar farm's capacity to about 2MW, which will lead to an improvement of renewable power generation and decrease dependence on fossil fuels. Another example given was a high-value horticulture development project which received a \$20 million loan from the ADB and is expected to scale-up a high-value horticulture business model in Vietnam, China and Indonesia. To make it worth investing, it is believed that this project will contribute to at least 3 targets of the SDGs and promote gender equality by increasing women employment.

Mr Schoellhammer concluded his remarks by stressing that Europe has so much strength in carrying out fieldwork that the ADB would like to work hand-in-hand in the future.

Q&A

The first question was raised by a scholar from the Free University of Brussels. His question referred to the ADB's priorities with regard to poverty eradication. The scholar first pointed out that there are still hundreds of thousands of people living in extreme poverty in China and India, the world's most populous countries. He then enquired about the way ADB's projects and activities in the private sector tackle poverty and unemployment, especially concerning the most vulnerable populations.

In response to this question, a quick point was made by Mr Kimura, stressing the primary focus of the ADB's seven priorities remains poverty alleviation and job creation. Rural development, one of the other priorities, is also on the agenda. While poverty

eradication comes first on the agenda, Mr Kimura stated, it is also important to take into account inclusive issues such as gender equality. The ADB's plan is to incorporate gender equality into private sector operations. Creating jobs and empowering women to combat gender inequality will be the major driver to foster inclusivity, while disability will also be taken into account in order to make the project more inclusive. Regarding China's poverty issue, Mr Kimura said that the Chinese government wants the ADB to provide continuous support to poor areas in some of the country's provinces because China still lacks institutional capacity to cope with these issues. Under such circumstances, the ADB will continue to engage with China to address challenges of development. However, whether the ADB should provide direct support to a country or not will largely depend on the context of every country in terms of their knowledge and capacity as well as the resources that the ADB can provide. Regarding people with disabilities, Mr Schoellhammer added that the ADB's approach is to advocate legitimization of labour rights and provide them with jobs by subsidizing companies.

The second question was raised by a researcher, asking whether North Korea would be admitted as a member in the ADB and how the ADB would react to the current situation of the country. In response, Mr Schoellhammer initially suggested that the researcher look at publications the ADB has issued to explain the Asian development. The development of the Asia-Pacific region cannot be realized without the regional cooperation of member countries. Nonetheless, the fact that North Korea is not a member of the ADB makes it impossible to directly support development of the country. That said, the ADB has been constantly engaged in discussions on how to contribute to the development of the region through its research work. On the other hand, it is inevitable to take into consideration the political situation that North Korea is experiencing. To become a member of the ADB, a country needs support from major shareholders amongst these are U.S and Japan. In this sense, the ADB's operations will largely depend on the political relations between these three countries.

One of EIAS's senior associates asked the third question on private sector engagement. He asked who is responsible for raising the interest of the private sector to attract proposals and put together packages. In response to this, Mr Kimura clarified that it would largely depend on the types of projects. In terms of sectors, the ADB has been focusing on the energy and the financial sectors, including micro finance and small/medium enterprises. Concerning countries, the ADB has mainly concentrated on China, India, Indonesia and Thailand. With regards to transaction, many parties have been involved and all appreciated the ADB's participation to reduce risks. Although it seems that the ADB's approach is more opportunistic and to some extent passive, in the long term, it enables the ADB to go into new sectors such as agribusiness, education and health. Furthermore, this approach also paves way for the ADB to go into riskier and

fragile frontier countries. On this point, Mr Kimura underlined the importance to break down available expertise, so that people can work together to mobilize the private sector's funding.

The next question, particularly directed at Mr Kimura, was on the relationship between the ADB and AIIB, the newly established, Chinese-led multilateral infrastructure development bank. In response, Mr Kimura said the relationship between two institutions so far has been very good and cooperative. In no cases have the two banks competed with each other. It was mentioned that, due to capacity constraint, AIIB needs to rely on other banks including ADB and the World Bank to prepare projects.

Another EIAS associate enquired about whether it is possible to open a Euro-based account to facilitate the use of the Euro in Asia. This question was based on the fact that whilst seventeen European countries are shareholders of the ADB, the US Dollar, not the Euro, is its dominant currency. He was also interested to know whether the ADB is also involved in promoting reforms with particular reference to good governance, financial transparency, use of international accounting standards and fiscal reform in the Asia-Pacific region. In response, Mr Schoellhammer initially clarified that the Euro is one of the three main currencies that the ADB operates in, which indicates that the ADB values its European shareholders. Mr Kimura then added that, even though the United States is one of the largest shareholders of the ADB, the use of US Dollar is the borrowers' choice, and the same rules apply to all members. In response to the second question, Mr Kimura affirmed that the ADB uses Policy-Based Lending (PBL) to push forward various reforms in improving efficiency in the public sector such as financial management, domestic capital market and governance of civil services.

The final question to our speakers was from the Embassy and Mission of Laos in Brussels. The representative wanted to know if the ADB and the World Bank are cooperating to assist developing countries like Laos. In response to this, Mr Kimura stated that the ADB has been actively involved in fieldwork with other institutions. Guided by the country partnership strategy, the ADB prepares a five-year plan for each country and operates it with other development institutions. Additionally, to enhance collaboration and advance operational coordination, Multilateral Development Banks (MDBs) are working on a shared platform to prepare initiatives, including country strategy and policies to deal with governance, procurement and safeguarding issues.

After the Q&A session, Mr Famaey thanked the speakers for their presentations and explanations. The last comment of Mr Famaey was that the ADB truly is an efficient full-service bank that is worth being trusted by its partners. In the end, our guests continued their discussion over a drink at the Institute.

Report by Jia Fu

