

The future of the ADB: an interview with ADB Vice-President Stephen Groff (Part I)

by Stephen Groff and Robin Davies

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Robin: *Most people who have a glancing acquaintance with the ADB think of it as an infrastructure bank. Last time I looked, somewhere between 60 and 70 percent of the bank's investments were in infrastructure. Have you seen a shift away from the central focus on infrastructure in the way the bank thinks about itself and its mission?*

Stephen: That sounds like a simple question but it's fairly complicated. The problem with conceiving of the ADB as just an infrastructure bank is that it is time-specific. Our resources are, in relative terms, ever more insignificant in the region when compared to the needs and kind of economic growth we're seeing. So to think about ourselves as an infrastructure bank is maybe relevant up until today, or next year, or the year after. But very soon there are going to be a lot of other actors investing in infrastructure. Hopefully, if we see progress in Indonesia and on Public-Private Partnerships (PPPs), there will be much bigger players than the ADB is alone when it comes to infrastructure finance.

This is an evolution recognised by the management of the Bank and our Board. There's a term that has developed recently, 'Finance Plus Plus'. The first 'plus' is leverage. The second 'plus' is knowledge. And so our management and Board recognise that we need to make this shift. Rajat Nag [Managing Director General of the ADB] has a vision of a \$US100 billion bank, and that's basically 90 percent leverage, not simply ADB funds alone.

But are we behaving that way on the ground? Not yet. And have we figured out how to incentivise our staff and our procedures and our mechanisms in a way that's going to lead to that? To a certain degree, but it's not happening at the speed or on the scale that is needed to really transform the institution quickly.

There are a couple of recent developments that are going to help accelerate the

transformation. The first is that the President recently approved our “PPP Operational Plan”. This has various parts to it but a significant element is the need to put every single project that’s currently in the pipeline (not just awaiting Board approval, but three or four years in advance) through a screen that asks why wouldn’t we be seeking to make this project a PPP. So that’s a significant change.

Another element that is in process and should be finalised within in the coming weeks is a knowledge management action plan. This asks how we take not just knowledge generation (which the bank’s Regional and Sustainable Development Department does through its published papers), but also tacit knowledge within the institution and make that more available across the institution and to Developing Member Countries. The knowledge management action plan also addresses how the ADB acts as a knowledge broker for the region. Examples of this include work we are doing with the People’s Republic of China on a relatively small scale. But we’re also asking how to scale that up in a way that has more impact.

So there are things that are underway that have the potential to change not only the way the institution thinks, which I think has changed, but also the way it acts, which is still evolving. But it’s a big ship and it takes a while to turn it.

Robin: *So would you see it going as far as becoming heavily invested in social protection, for example, or is that, do you think, beyond your core business?*

Stephen: I don’t think that we’re quite at that point yet. The challenge lies in the fact that the region is, rightly or wrongly, looking at what happened in Europe. And also that a lot of countries in the region feel they can’t yet afford social protection. Looking at the European experience, these countries think, *two years ago we said we couldn’t afford it, and now even Europe can’t afford it, or at least at the level at which it has been provided.*

Against this backdrop we need collectively think about ‘good enough’ types of social protection policies. This is not an area in which the Bank has a lot of experience, and I don’t see it being one in which we ultimately develop a deep expertise, but we can certainly contribute to the thinking.

Robin: *As part of the Asian Development Fund (ADF – the concessional financing arm of the ADB) replenishment process it was agreed there would be consideration of the longer term strategic vision for the ADF with, I believe, a 2024 horizon. Do you see the ADF facing pretty much the same set of challenges as the International Development Association (IDA – the concessional arm of the World Bank Group) in terms of its client base?*

Stephen: I think our challenges are no less acute than IDA’s. Within the context of

a growing number of graduating countries, one thing in particular that will mirror the IDA process is how we reconcile the performance-based allocation system with a narrowing set of countries that are not performing. That will be the fundamental challenge in the next replenishment and as the universe becomes smaller and more focused on fragile states, it is something we're all going to have to wrap our minds around.

Robin: *Do you have a clear sense of what options donors are looking for in this strategic vision exercise? Are they looking for the ADF to be recast with a focus on conflict and fragility, or are they looking at converting it into an issues-based fund that would provide top-ups?*

Stephen: I don't have an immediate sense of where we will end up. It wasn't the focus of the negotiations that we recently concluded, but looking forward, I wager on fragility more than on issues-based funding.

We know what we need to do when we engage with these countries. We know the kind of flexibility that we need to have with fragile states. The challenge is that, as hard as it is for bilateral donors to adapt to more flexible approaches, there's a real tension in the multilaterals because of the fiduciary responsibilities that shareholders rightly place on them, while at the same time asking for greater flexibility when engaging in fragile situations.

So the question that will feature fairly prominently in the next round is how to reconcile those two needs. How do you look at ADF money as truly risk capital in some of these fairly undependable environments?

Robin: *You've worked for the ADB twice, with stints at the Millennium Challenge Corporation and the OECD's Development Cooperation Directorate in between. What changes did you observe when you returned to the ADB?*

Stephen: The ADB is actually quite different from when I left. First – and a lot of this is due to the recent General Capital Increase (GCI) and the additional requirements that shareholders put on the bank through that process – the bank is much more transparent than it was before. That doesn't mean there isn't room for improvement, but it is much more transparent. Second, it's now a place that cares more about its human resources and recognises them as being the core of the institution. It also has a much better reputation and relationship with its shareholders, a fact borne out in our positive performance in the Australian Multilateral Assessment, in DFID's Multilateral Aid Review and in assessments by the Multilateral Organization Performance Assessment Network.

The relationship with staff and the atmosphere inside the building itself is a lot better

than it was. When I left in 2004 the ADB was either at or close to a nadir in terms of morale. That was a result of our human resource management practices, and also due to our being at a low point of lending, at least in modern history, which led to a lot of existential questions about our purpose.

So through the GCI, the subsequent global economic crisis and increases in lending, changes in human resource management, more direction through Strategy 2020, and better leadership, we have turned around quite a bit. That doesn't mean things are perfect. There's always room for improvement, but the ADB is a significantly different place compared to when I left eight years ago.

Robin: *As you're aware, Australia will host the G20 leaders' summit in 2014. As part of that, Australia will be chairing the G20 Development Working Group in the lead-up to the summit and will join the troika of past, present and future chairs around the end of this year. I'm interested in what you would hope to see Australia driving for in this role.*

Stephen: What I think would be important first is cleaning up the agenda, because the multi-year action plan is a bit of a grab-bag at the moment. It reflects a lot of compromises and includes some things that are issues and others that are symptoms. So, first you could rationalise the agenda – and maybe enough time has passed that somebody could come along and say, *let's narrow this down to a set of issues that we want to tackle and things that we can measure ourselves against.*

But the other part of it is the tendency in the summit to focus on Africa, which I understand because the needs are great. But we still find the vast majority of the world's poor live in Asia. Australia is ideally positioned to bring this fact to the attention of the G20 and seek some consensus on how to address continued deprivation in the region.

The Deputy Managing Director of the IMF, Min Zhu, offers one way of thinking about this. He has gone on record as saying that all around the Pacific rim we're seeing countries that 10 years ago one didn't really associate with each other showing similar patterns of growth and building new trading relationships. Those countries include Brazil, Chile and Argentina. So it may be useful to think about the region from an APEC perspective, and to think about how you get that universe working a little bit better together.

Robin: *Do you think there's anything desirable about the G20's weighing in on questions about the future of the concessional arms of the multilateral development banks? Essentially you've got very similar issues being discussed in a series of different rooms at present, around graduation, performance-based allocation,*

resource mobilisation, and the provision of global public goods – and around the fundamental objectives of the concessional arms.

Stephen: It would be useful but only if all G20 members are ready to talk about it, otherwise you'll end up spinning your wheels without much impact or just producing rather anodyne communiqués.

It would be important to get some signals early on about whether everybody is be ready to seriously talk about it. This particularly true for the emerging economies because it has implications for them. They still come to the ADF and IDA negotiations as developing countries, not explicitly as donors, and discussion about these matters in the G20 would likely necessitate an evolution in this perspective.

The second part of this interview, focusing on the Pacific and Myanmar, is available [here](#).

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