A NEW ROAD FOR DEVELOPMENT

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One of the most important features of international relations in the post WW II era has been the extraordinary rise of the multinational institutions such as the IMF, the UN, the OECD, NATO, the WHO, and many, many others. These organizations were created to do very important and noble work. Yet who can say that they are living up to their full potential? While the work goes on, these institutions have yet to show that they can change and adapt to the rapidly evolving issues and problems of the 21st century. If they don't, they may one day be viewed as grand experiments in international cooperation.

This is certainly true of the multinational development banks (MDBs) such as the World Bank, the Asian Development Bank, the EBRD, etc. These institutions were created to help the emerging countries to accelerate their economic growth and to reduce poverty. To a degree they have been of help. But they are increasingly looking tired and in need of rejuvenation. Thus all are speaking of reinventing themselves.

For all organizations change is hell. But it is exceptionally hard for all multinationals. Military organizations, charities, businesses, etc., face the same Darwinian laws that are seen in nature. If and when they begin to lose their competitive edge they cease to exist. But the MDBs seem to go on and on; they have very little competition, and exist very much as "state owned enterprises." Tougher yet, they are multi-state enterprises - making change a highly political task.

But change they must; their important job is unfinished. Poverty still exits at unacceptable levels around the world. Even in Asia, which has seen historically unprecedented growth, poverty remains very high in many countries. But how to change?

Over the course of the last five years something very interesting has been occurring at the Asian Development Bank that has a direct significance on the reform agenda. The ADB has been increasingly financing the private sector using a new approach that is winning the Bank a great deal of applause from the emerging country governments as well as the business and banking communities. It is a win-win-win situation. In so doing, the ADB has formulated a new model that has a direct bearing on the other development banks around the world.

If one considers the way the MDBs have been doing their work over the last forty or fifty years it is clear that they have been concentrating on the supply side of the investment equation. When they were founded, the most pressing of the many development hurdles was the lack of investment funds. Thus, these institutions were created as banks to find, gather, package and deliver funds to the governments of the less developed countries of the world. But today there is no longer a funding gap; the world is now awash with tens of trillions of dollars looking for investment opportunities.

Why is it that these extraordinary sums are not finding their way into the investment needs of the poorer countries? On one level, the answer is quite simple. Between the demand for investment and the supply of funds, a critical element is missing. Its absence is suffocating the needed investment activity. In a word, it is *confidence*. Without confidence, the needed investment funds as well as the managerial and technical skills needed for modernization will not make themselves available. It is now time to give much greater focus to the non-financial, demand side of the investment equation.

Thus the private sector of the ADB has adopted a new strategy which makes a radical claim – that as a bank, our core product is no longer money. Instead, the Bank is making the assertion that its new role is to provide *risk mitigation*, a *dialogue with the government for regulatory change* and the *technical and financial expertise* to make investments happen. These automatically come along with the funds provided. They do so because the ADB has a long track record of supporting the numerous countries of Asia. But it also comes because the bank speaks with the respected voice and authority of the sixty-seven countries that make up its membership.

The results have been startling. In five short years, the private sector financings (and earnings) of the ADB have skyrocketed, growing more than twenty-five times 2001 levels – while turning down seven transactions for every one accepted.

The fear has always been that the MDBs would "crowd out" the private sector as they expand their private sector financings. This remains a criticism of many of the MDBs – who remain wedded to the supply side approach. But this has clearly not been the case with the ADB. Indeed, the ADB is warmly welcomed because we are bringing something that the private sector needs, but which money can't buy.

The demand issue is the key.