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Norbert Barthle, Governor

Mr. Chairman of the Board of Governors, President Nakao, Honorable Governors, Distinguished guests,

It is a great honor for me to address this audience for the first time as the newly appointed Governor for Germany. Last year, the Bank celebrated its 50th anniversary in Yokohama, and its important contribution to the economic development of Asia and the Pacific. I see an important symbolism in our coming together here in Manila, in the ADB Headquarters, to discuss what direction this Bank should take over the next 12 years or so.

The world's economic center of gravity is shifting towards Asia and the Pacific. These regions have experienced significant progress in their efforts to fight poverty. Most ADB member countries have graduated to middle- and even upper middle-income status. Their integration into global value chains is progressing speedily.

This is good news. However, at the same time, huge challenges remain for ADB's developing member countries. Some are still facing fragile and conflict-affected situations; there are still persisting pockets of poverty, and growing inequality; health and education outcomes have still to be improved; the increasing impact of climate change is threatening achieved and future progress in development, particularly in small and vulnerable island states.

In addition, huge investments will have to be made in infrastructure and to equip youth with vocational skills if Asia and the Pacific region want to enjoy sustained growth and sustainable economic development.

ADB plays a pivotal role in supporting its developing member countries in their ongoing endeavors to cope with these and other challenges, such as the need to harness the benefits of technological advances in digitalization and automation.

In order to carry on fulfilling its role successfully in the future, the Bank needs in my view to answer the following core question: How can the ADB effectively and efficiently help its members achieve their self-set goals in line with the SDGs and the goals of the Paris Agreement, and make growth environmentally and socially sustainable and inclusive while simultaneously helping countries to make the transition from factor accumulation growth models to sustained productivity-led growth, thereby avoiding the middle-income trap?

To my mind, the short answer to that question is: By doing what it does best—providing sustainable quality infrastructure via project financing coupled with tailor-made support for the reform agendas of DMCs. This in turn means that ADB should avoid becoming the family doctor for all the challenges in Asia and the Pacific. If it wants to continue to provide real value for money, ADB should focus on its comparative advantages and core competencies—catering to the specific needs of the different groups of countries, from poor and fragile to upper middle-income. Having said that, however, a business-as-usual approach is not an option.

There are succinct aspects that Germany sees as pivotal for ADB to make an important contribution to Asia's and the Pacific region's sustainable growth in the future.

First, ADB needs to be an important and reliable partner for investment in and the financing of sustainable high-quality infrastructure in Asia, while continuing to maintain high environmental and social standards.

We expressly welcome the ramping-up of climate financing both for mitigation and for adaptation up until 2020, the Bank's accreditation to the Green Climate Fund and its membership in the NDC partnership. We commend ADB for the projects approved by the Green Climate Fund (GCF) and expect that the Bank will actively continue its engagement with the Fund by jointly identifying the most innovative and transformative opportunities for climate finance. We also expect the Bank to lay out clearly how climate-focused blended finance and other green financing vehicles can support countries in reaching their Nationally Determined Contribution (NDC) commitments, including through the Asia-Pacific Climate Finance Fund (ACliFF). Furthermore, we expect ADB to outline its ambitions regarding climate financing for 2030, not only in terms of numbers but also with regard to how it would aim to achieve these ambitions, reflecting the innovations that have been made in terms of financial instruments such as climate-related guarantee and insurance schemes. It is only logical in our view that the strategic realignment with sustainable development as the leitmotif of the Bank should go hand in hand with the revision of the Bank's outdated energy policy. ADB needs to further align its portfolio with the long-term goals of the Paris Agreement. This requires—among others—the elaboration of a clear strategy on phasing out fossil fuel investments.

In this context, Germany would also like ADB to strengthen its assistance for education, in particular with respect to TVET, as this has a double impact: Market-oriented skills development and vocational training have huge potential for boosting job creation and productivity in Asia. In addition, high-quality infrastructure needs to be properly constructed and maintained, and technology needs to be operated by skilled technicians.

This brings me to the second point. ADB's value proposition and business model needs to be fundamentally changed toward taking a systemic and catalytic role in mobilizing financing for green growth. It must be borne in mind that the vast majority of external financing is now being provided by the private sector, including foreign direct investment (FDI). The Bank therefore needs to help design regulatory frameworks, develop innovative financial instruments and partnerships, and function as an anchor investor, so that the private sector is incentivized to invest in "green" sectors and sustainable infrastructure.

To this end, we encourage the Bank to develop clear principles for investing in and working with the private sector—reflecting market structure, and regulatory and institutional maturity. Mobilizing private finance is a means to an end, not an end in itself. This also means that ambitious mobilization targets should avoid setting the wrong incentives that result in private financing where public financing would have been more desirable. But it also means that there has to be evidence of additionality of public finance.

As regards the instruments, we commend ADB for its efforts to expand and standardize risk-sharing instruments in the form of guarantees, insurance products, blended finance, equity investment, and liquidity backup facilities. These should be utilized more than in the past, particularly in frontier markets—it is here that we believe ADB's private sector operations can have the biggest impact.

Operationally, the described shift in the business model of ADB also has consequences. ADB will increasingly have to take on the role of project developer and originator. This may require partnering with other actors. A notable example in our view is the Cities Development Initiative for Asia (CDIA), where Germany, together with other countries, has partnered with ADB to support cities in bridging their planning-investment gap by preparing and structuring their urban infrastructure investment projects. We welcome ADB's plan to increase the presence of staff in the field offices in this respect, whilst keeping in mind the additional costs.

Providing value for money—and this is my third point—for middle-income countries, in particular upper middle-income countries (UMICs), will be the litmus test for ADB in the future. UMICs value ADB more and more as a partner that provides advanced technology, expertise and technical assistance on their green growth path. ADB must therefore make every effort to become a knowledge bank for Asia and the Pacific by optimizing its knowledge management and diffusion, and attracting high-caliber staff with the right skill set. We commend ADB on its new procurement framework, which recognizes the increased capacity of UMICs, but also the demand for quicker delivery and high-quality technology.

Let me come to the final part of my statement. To achieve its mission and respond to the changed context in which it is operating, the Bank needs a solid capital base. The ADF-OCR (ordinary capital resources) merger has put ADB on a solid footing in this regard. However, we would like to encourage the ADB to capitalize on the current momentum and also consider how it can achieve more financial sustainability in the future through an approach that is aimed at organic capital growth. One possible way to achieve this could be greater diversification of financial terms for ADB products and instruments; bigger reflows from increasing private sector operations activity could also be expected.

While we are on the subject of financial resources and capital, it makes sense to also talk about ADB's administrative budget. We would like to encourage ADB to implement commensurate investments in staff capacity, supervision, learning and evaluation, and IT infrastructure speedily so that it can serve clients efficiently and effectively. In this context we also call upon ADB to optimize its administrative budget utilization rate, which could also lead to less need for administrative budget increases in the future.

Overall, Germany trusts in ADB's capacity, both financial and technical, to play an important role in tackling the development challenges that the upcoming decades may bring in Asia. Mr. President, I have faith in you and I trust that the ADB will carefully deliberate how to make the best use of its staff, the Management and its Board.

Germany is fully committed to its successful partnership with the Bank, as a shareholder, as a donor and as a development partner.

In closing, I would like to thank the Government of the Philippines and the Bank for the excellent organization of the Annual Meeting and for the hospitality extended to us.

Thank you very much.