



Munich Personal RePEc Archive

Asian development bank: can it become an actual development bank?

Khan, Haider A.

University of Denver

June 2012

Online at <https://mpra.ub.uni-muenchen.de/39440/>
MPRA Paper No. 39440, posted 06 Jul 2012 22:24 UTC

**Asian Development Bank: Can it Become an Actual
Development Bank?**

Haider A. Khan*

Professor of Economics, JKSSIS

University of Denver

Denver, CO 80208

USA

Revised, June 2012.

The Asian Development Bank(ADB) was founded in the mid-sixties. In addition to the Asian countries, it also has members from among the wealthy countries in North America, Europe and Oceania. Over the years, ADB has grown in size and prestige among the regional development banks. As Khan (2004, 2007 and 2012) argues, within a hybrid workable global financial architecture, regional development banks like the ADB can play a constructive role.

At the recently concluded 45th annual meeting of board of governors in Manila, ADB annual report pointed out that the bank has more than doubled its membership from 31 to 67, provided loans, grants and other forms of development assistance amounting to a quarter of a trillion dollars, raised its capital base five times to \$165 billion, and maintained consistently highest ratings from international credit rating agencies. Therefore, by the standard financial criteria, the bank has justifiably earned a reputation as an efficient financial institution.

However, we need to ask some more significant questions : has ADB engaged in genuine development efforts by helping the peripheral countries which are poor become less dependent on the metropolitan core ? Is it possible to say that by the analytical categories of the (social) capabilities criteria for development proposed by Amartya Sen and others(the current author included), the recipient countries have enhanced the capabilities of the great majority---if not all- of their citizens ? In short, how has the bank fared in its role as a development institution? In order to be fair, it is necessary to point out that ADB provides only a tiny fraction of financing even for countries that are the most aid-dependent. However, a fair assessment must also acknowledge that ADB's lending to its member countries has achieved at best mixed results in both overcoming dependence and enhancing capabilities.

My former colleague at ADB and fellow economist, M.G. Quibria(2012) has pointed out:

“[a]ccording to the bank's evaluation department, the performance of its sovereign lending kept on declining since 2000 after reaching a peak success rate of 70 percent, though the performance of its non-sovereign lending is somewhat better.”He then goes on to point out in a remarkably fair assessment both the achievements as well as the many problematic aspects of ADB. Since prior to his retirement from ADB, Dr. Quibria was a senior official in to the bank's evaluation department, his evaluation of the bank's overall developmental loan performance carries some weight. My own view which is similar to those of many other retired senior bank professionals with distinguished service records is that the bank's overall performance is a mixed one at best.

More importantly, the intellectual shallowness resulting from often mouthing the slogans of the IMF and the World Bank without critical reflection and bold policy moves has meant that whatever good the bank has done has really come from the dedication and flexibility of the staff on the ground, and not from the top leadership. It will simply be unfair to write off the expertise and hard work of many professionals I know and respect both personally and professionally. Unfortunately, in my experience they are a definite minority and often their genuinely praiseworthy work on the ground goes unrecognized by the upper echelon of bank management and the board of directors.

It is certainly true that the bank has played a positive role in providing finance to poorer countries with few financing options. It also offered liquidity---no doubt helped by Japan's generosity--- to distressed economies that were in financial turmoil during the Asian Financial Crisis(AFC). As a professional at the bank during the AFC, I observed both the efficacy of ADB relative to the World Bank and the IMF in Asia at least, and the political limits of what a mainstream regional development bank can do(Khan 2002c, 2004, 2006). Mainstream models and paradigms are difficult to change(Khan 2003a,b).

Although by standard measures such as the headcount ratio, during the last half century, Asia has attained spectacular economic success that brought more people out of poverty than any comparable period in human history, the twin categories of chronic and severe poverty which often overlap, have been difficult to overcome. Much of Asian success can be attributed to Chinese economic growth which certainly continues to be impressive even as it decelerates. But this growth saga also has its dark sides. To mention just two negative features of Chinese growth: inequalities of income distribution and rural/ urban disparities have grown astronomically compared to those of the Maoist era. To these one can add the looming ecological disaster and widening disparities between the coastal areas and the hinterland(Khan 2010).

Most importantly, the Chinese growth is a combination of many factors---both domestic and international. Domestically, the capabilities basis for utilizing a relatively healthy, literate work force was developed during the Maoist period. Internationally, the export-led growth strategy could not have succeeded without the relatively open consumer markets under GATT and WTO. ADB had little or nothing to do with these factors.

Furthermore, despite this Asian success story, a large part of the population in developing Asia still remains trapped in abject poverty, with 1.8 billion people subsisting on less than two-dollars a day by ADB and World Bank statistics. There is pervasive hunger, ubiquitous illiteracy, widespread malnutrition and high infant and maternal mortality rates in developing Asia. Two thirds of the world's hungry, three-fourths of the world's illiterates and two-thirds of the world's malnourished children live in Asia according the statistics provided by the international organizations themselves.

A detailed discussion of what the bank needs to do to address these challenges will require much more space than I have been allowed here. But it is important to emphasize, however briefly, that the bank needs to further improve on its past performance. From my own experience inside the bank and observations as an academic as well as interviews with other experts, I would suggest that a thoroughgoing reform of ADB would require the organization to institute changes in its operations, internal governance and current personnel practices, research efforts and program evaluation practices.

Furthermore, the reduction of the epistemic and cultural gaps between the bank bureaucrats and the poor people they are supposed to serve will require tight control over salaries and benefits, a reduction in hierarchical controls and (re)socialization of the professionals as citizens who are committed to helping other, less fortunate citizens. This can not be achieved if the UN, The World Bank and the IMF bureaucracy is used as a model.

My earlier analysis of corporate governance in Asia(Khan 1999a,b; 2002a, b;2004) and recommendations for the monitoring of financial corporations to make them more accountable applies to ADB also. In particular, strengthening the watchdog functions of the board by recruiting non-governmental directors through a transparent set of procedures from civil societal organizations including academic experts would go a long way towards overcoming inertia and the narrow focus on official stances of the more powerful members, particularly the US. More broadly, ADB should institute democratic forms of governance that are open to criticism from below both inside the bank and also the civil societies of the member countries. Only such openness to criticisms and appropriate democratic transformations of the bank's practices through such receptivity to the subaltern views can ultimately make ADB into a true development bank over time. Perhaps learning from initiatives such as the recently proposed and founded bank of the south in Latin America will also be possible. But such learning and creative change geared towards serving the poor people instead of the political and economic agendas of the wealthy member countries, will require much debate and struggle within ADB itself. This is a difficult process but it is not too late to start this process(Khan 2011,2012).

References:

Khan, Haider A.(1999a) "Corporate Governance of Family Businesses in Asia: What's Right and what's Wrong?" ADBI paper no. 3, Tokyo,1999.

_____ (1999b) "Corporate Governance in Asia: Which Road to Take?", paper presented at 2nd high level symposium in ADBI, Tokyo

_____ (2002a), "Can Banks Learn to Be Rational?", Discussion Paper no. 2002-CF-151, Graduate School of Economics, University of Tokyo

_____ (2002b), "Corporate Governance: the Limits of the Principal –Agent Model", Working Paper, GSIS, University of Denver.

_____ (2002c) "The Extended Panda's Thumb and a New Global Financial Architecture: an evolutionary theory of the role of the IMF and Regional Financial Architectures, University of Tokyo CIRJE Discussion paper No. [2002-CF-163](#)

-----2003a. “Technology, Modernity and Development: Creating Social Capabilities in a POLIS ”, Peter Brey et al. eds *Technology and Modernity: The Empirical Turn*, The MIT Press

----- 2003b. “On Paradigms, Theories and Models” in *Problemas del Desarrollo*, no. 131.

------(2004) *Global Markets and Financial Crisis: Towards a Theory for the 21st Century*, Basingstoke, UK:Macmillan/Palgrave

------(2006). “Managing global risks and creating prosperity : the role of the IMF and regional financial architectures” in Junji Nakagawa,ed. *Managing Development: Globalization,Economic Restructuring and Social Policy*, Routledge:17-41.

_____(2010). “China’s Development Strategy and Energy Security”, in Amelia Santos-Paulino and Guanghai Wan ed. *The Rise of China and India: Development Strategies and Lessons*, Palgrave/Macmillan,

------(2011)“Lessons from Korean Development Experience”, in UNAIF, *New Partners for Change: UN and the World Academic Community*, Seoul, August/September 2011: 83-112.

------(2012). “Analyzing the implications of international financial reform for developingeconomies”,report submitted to the UNDP, New York.

Quibria, M. G. (2012). “ADB: It needs a new agenda for cahnge”, *The Daily Star*, Dhaka, May 20.