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Adrian Schlaepfer, Alternate Governor

I would like to extend my sincere thanks to the Government of India as well as the authorities and people of Hyderabad for their warm welcome and good arrangements for these meetings in this beautiful city. Let me also extend my welcome to Brunei Darussalam as the newest member of ADB.

Nobody reviewing the major events and developments in Asia during the past year can escape the notion that tragedy was a recurrent theme in 2005. Within months of the devastating tsunami in the Indian Ocean the region was hit again by a major natural disaster, this time by a disastrous earthquake in South Asia that again caused human suffering on a staggering scale. I would like to use this opportunity to express my condolences to the many thousands of people affected by these disastrous events. At the same time I would also like to commend the international community and in particular to ADB for its swift and efficient reconstruction assistance. Without doubt, ADB's remarkable responses both to the tsunami and to the earthquake in South Asia have shown ADB at its best.

The vulnerability of the region to recurrent natural disasters contrasts strongly with its unbroken economic dynamism and robustness. The many natural disasters, the avian influenza threat, and rising oil prices did not seriously affect the remarkable economic growth rates of most Asian economies. Moreover, thanks to the region's sustained economic growth, the proportion of the population surviving on \$1 a day or less continued its downward trend in 2005 and has come close to being halved since 1990. I would like to draw three conclusions from these encouraging observations. First and foremost, the remarkable progress achieved by the region in terms of eradicating poverty should not be a reason for complacency. Asia is still home to two thirds of the world's poor, income disparities both between and within countries are widening, and a host of Asian countries will have difficulties reaching all MDGs, in particular those on the human development front. That said, we should, second, regard this unprecedented success as testimony to the fact that developing Asia has changed radically during the past two decades and that the pace of change is likely to accelerate in the years ahead. Third, we must embrace change and welcome it as an opportunity. This in turn demands a determined willingness on our part to adapt lest our efforts become increasingly irrelevant to the evolving and diverse needs of the region.

Shortly after taking over the helm of this institution President Kuroda addressed the Governors at the Annual Meeting in Istanbul. In his inspiring statement back then he showed a thorough understanding of the need for ADB to adapt to a rapidly changing environment and to reinvent itself. This understanding, widely shared by shareholders, represented the basis of his much applauded vision to transform ADB into a more relevant, more responsive,



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and more results-focused institution. One year after the delivery of this inspiring speech is a good time to take stock of what has been achieved in terms of enhancing ADB's relevance, responsiveness and focus on results—the so-called three R's.

Enhancing ADB's relevance

Greater focus and selectivity were identified last year as the principal means to enhance the relevance of ADB. ADB has made significant progress in this respect. In the context of drafting the new medium-term strategy (MTS), Management reassessed ADB's role and proposed the five following strategic priorities: catalyzing investments, strengthening inclusiveness, promoting regional cooperation and integration, managing the environment, and improving governance and preventing corruption.

I generally agree with the strategic thrust of the MTS, in particular since Management elevated the promotion of governance and the prevention of corruption to one of ADB's strategic priorities. I am also very supportive of ADB's intention to adopt a more proactive, forward-looking role in managing the environment and the effects of climate change. ADB's innovative carbon market initiative (CMI) deserves special praise in this respect. It is also a pleasure for me to announce that the Climate Cent Foundation—the independent Swiss agency set up to help Switzerland meet its CO₂ emission reduction obligations under the Kyoto Protocol—has expressed an interest in investing up to €20 million into the Asia Pacific Carbon Fund. I would also like to commend ADB for its decision to further improve selectivity by defining core operational sectors and phasing out those sectors in which ADB's performance has been patchy. Notwithstanding its positive aspects, the latest version of the MTS still contains a number of weaknesses which should be addressed.

By defining “strengthening inclusiveness” as one of five strategic priorities and placing all priorities on an equal footing, the MTS tends to dilute the overarching goal and cross-cutting relevance of poverty reduction. Needless to say, as a development bank, ADB must ensure that all its operations are directly or indirectly aimed at reducing poverty. Hence, I would like to urge Management to take this issue into account and to ensure that the revised MTS contains an unequivocal commitment by ADB to the overarching goal of poverty reduction. Moreover, the MTS should elaborate in more detail how ADB intends to assist governments of the region to make economic growth more beneficial to the poor and how income disparities can be reduced.

While I certainly appreciate that governance is now part of ADB's strategic priorities, I would like to recall that even a well-crafted policy is useless if it is not followed through in practice. Given the strong foundation of mutual trust it enjoys with the governments of the region, there is no reason why ADB should not adopt a higher profile in helping its clients to improve governance and curb corruption. In this context I would also like to refer to the review of the implementation of ADB's governance and anticorruption policies which was quite candid in its critique, indicating, among others, that ADB needed to do more in order to embed implementation of the governance and anticorruption policies in the mainstream of its operations. Hence, a revised version of the MTS should show how the Bank intends to follow-up on the review's recommendations and spell out in more detail what kind of activities it intends to pursue under this strategic priority. Furthermore, it should elaborate on how ADB will coordinate these activities with those of other international financial institutions.

I welcome the fact that the recommendations of the task force report on strengthening ADB's involvement in private sector development and fostering team work between the Private Sector Operations Department and the regional departments have been included in the MTS. However, I am not sure what decisions Management has taken in this regard and who will be responsible for ensuring effective implementation of the task force's

recommendations and its 13 proposed actions. The revised version of the MTS should be more specific on these issues.

I also welcome the fact that the Bank will promote regional cooperation and integration as a strategic priority. It has always been my conviction that regional cooperation and integration is an important comparative advantage of the regional development banks, and on various occasions I have invited ADB to scale up its efforts in this area. What exactly ADB should do in this broad area and the specific weight it attaches to these individual activities must of course be demand-driven. Furthermore, ADB needs to ensure that it has the necessary means to undertake such activities in an efficient and effective way and that it will not duplicate or even contravene the efforts of other international organizations. Against this background I would like to invite Management to reconsider the role it has foreseen for ADB in the area of monetary and financial integration, in particular its plans for ADB to proactively help set the stage for a single Asian currency.

Creating a more responsive Bank

I would now like to turn my attention to the goal of creating a more responsive Bank. Measured by what was deemed necessary to advance towards this goal—enhanced timeliness, innovation, and flexibility—a good degree of progress has been achieved during the past 12 months. I would like to commend Management in particular for the removal of bottlenecks in various business processes and internal procedures, the introduction of new financial instruments and modalities, the creation of an Independent Risk Management Unit and the adoption of less restrictive cost-sharing arrangements. All these measures have no doubt enhanced in one way or the other the responsiveness of ADB. Yet responsiveness does not only refer to how ADB interacts with its clients. Rather, it must be viewed in a larger context, in effect denoting the quality of the Bank's interactions with all its shareholders and stakeholders.

Applying this yardstick, ADB certainly deserves praise for holding wide-ranging consultations both for the review of its governance and anticorruption policies and for the drafting of a new public communications strategy. However, when it came to drafting and adopting the new MTS, arguably the most important institutional strategy for the years to come, the momentum towards participatory processes and constructive dialogue subsided. I welcome President Kuroda's decision to reopen the MTS drafting process and invite Governors to express their views on the MTS here in Hyderabad. I understand this step to be a commitment that in future management will actively seek to promote a culture of dialogue, both within ADB and with its external stakeholders.

ADB as a results-focused institution

Where do we now stand with respect to the goal of transforming ADB into a more results-focused institution? The Bank has no doubt made a commendable effort to mainstream the managing for development results (MfDR) agenda across all operations, particularly through its results-based country strategies and programs and the project performance management systems. ADB has also made progress in further implementing the new human resources strategy, even though the outcome of this process has so far failed to meet the expectations of all relevant parties.

Nevertheless, while fully acknowledging the inherent difficulties in instilling a results-oriented culture at all levels of the institution, I do see possibilities for management to step up its efforts and make further progress on this front. A case in point is the MTS, which tends to evade any strong commitments on how to implement the proposed strategic priorities and to achieve measurable results. Management could clearly signal that it attaches sufficient importance to the results agenda by adopting the sensible proposal by various shareholders

to introduce into the MTS a responsibility and accountability framework with a time-bound results framework. Another means to enhance the efficiency and effectiveness of ADB would be a larger degree of decision-making authority at senior management level, possibly including a more clearly defined managerial role of the Vice Presidents.

Conclusion

To conclude, I agree with the view expressed in this year's Annual Report that 2005 was a year of transition for ADB. Transition always holds the prospect that things will improve. Yet transition is rarely a smooth process—doing new things or doing things differently can entail misunderstandings and provoke resistance. In transition periods it is essential that decision-makers take good note of their environment. I am convinced that such open mindedness will prevail at ADB. In further implementing the President's inspiring vision, ADB can continue to count on the full support of Switzerland.

