

LTSF PREPARATION AND IMPLEMENTATION ISSUES

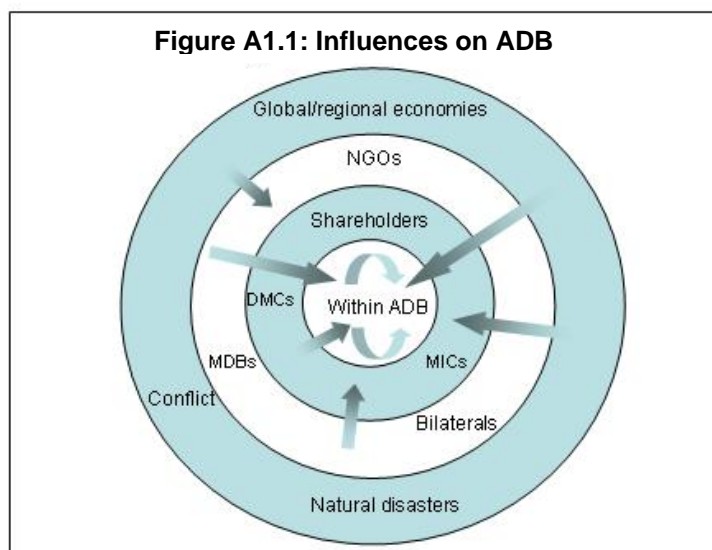
1. **Organizational Effectiveness.** In 2004, an independent assessment of the effectiveness of the reorganization of the Asian Development Bank (ADB) was carried out with the help of a panel of external experts. This was followed by a reform agenda (Appendix 6) to push forward various reforms in business procedures with the ultimate objective of enhancing the development effectiveness of ADB operations. During the same time, ADB's vice presidency was expanded from three to four, and added one Managing Director General looking after the implementation of the reform agenda and coordination with Management. In May 2006, ADB further fine-tuned its department level organization and merged Southeast Asia and Mekong departments, and created East Asia and Central and West Asia departments. During the implementation of the Medium-Term Strategy (MTS) I, various new resident missions (RMs) were established. Increasingly, RMs have been delegated with country programming and more project administration responsibilities.
2. **Donor Harmonization and Managing for Development Results.** Toward the end of MTS-I, ADB also started supporting international initiatives such as Harmonization for Aid Effectiveness and Managing for Development Results (MfDR). In 2004, its Operations Evaluation Department (OED) was converted to an independent department for operations evaluation, reporting to the Development Effectiveness Committee of the Board.
3. **MTS-I Review.** A review of MTS-I was conducted in early 2006¹ as part of the process of formulating MTS-II, which was subsequently published in May 2006.² Although originally planned to cover the period 2006–2010, MTS-II only covers a 3-year period from 2006 to 2008. This was in response to the region having undergone "... such rapid and far reaching changes that ADB's role and long-term strategy must be reviewed."³ Consequently, in the light of emerging challenges in the region, a midterm review of long-term strategic framework (LTSF) is to take place alongside MTS-II introducing "... some strategic measures as the first steps of a more comprehensive longer-term ADB response."⁴ MTS-III will enable the other elements of this response to be introduced by 2009.
4. **MTS-II and Innovation and Efficiency Initiative.** MTS-II came in early 2006. A new Innovation and Efficiency Initiative was brought out and piloting began in 2006. The Regional and Sustainable Development Department (RSDD), at the same time, introduced other new initiatives for areas such as carbon, clean energy, water, etc., to respond to changing requirements of developing member countries (DMCs) and also the changing market environment.
5. **LTSF Review.** The announcement by the ADB President of the LTSF review was in response to the changing environment and market places, and emerging challenges, opportunities, and risks. In this context, the challenges that ADB faces are to continue to remain relevant, responsive, and results-focused in providing services to its government and nonsovereign clients.
6. Figure A1.1 summarizes the external and internal influences and stakeholders which have influenced the development of LTSF and its early implementation through MTS-I.

¹ ADB. 2006. *A Report on the Implementation of the Medium Term Strategy (2001–2005)*. Manila.

² ADB. 2006. *Medium-Term Strategy II 2006–2008*. Manila.

³ Ibid.

⁴ Ibid.



A. Development of the LTSF

7. The agreement establishing ADB stated “The purpose of the Bank shall be to foster economic growth and co-operation in the region of Asia and the Far East and to contribute to the acceleration of the process of economic development of the developing member countries in the region, collectively, and individually.” This Charter has since guided the overall direction of ADB. Prior to the development of the LTSF, the shift from a role as a project finance institution to that of a development bank was guided by operational and strategy reviews in 1983 and 1989.⁵ In 2000, a decision was taken to reassess the “major long term development challenges of the region and the changing needs of its DMCs.”⁶ This reassessment resulted in the publication of the LTSF in March 2001, with the intention “... to realize the new vision and mission of ADB, provide all stakeholders with its long-term strategic goals and fundamental operating principles, and to be the key statement to guide its strategic management over the next decade and a half.”⁷ It followed on from two previous strategic studies,⁸ and took into account the findings of the 1997 study *Emerging Asia: Changes and Challenges*, as well as building on the poverty reduction and private sector development (PSD) strategies formulated in 1999 and 2000, respectively.⁹

8. By 2001, Asia had just been through a period of great and continuing change. The financial crisis of 1997 had shaken the international community’s confidence in the region and had tested ADB’s ability to respond rapidly and effectively to a major crisis. Despite the crisis, the region’s economies were again growing rapidly, most notably the People’s Republic of China (PRC); and to a lesser extent India, both major clients of ADB. Key challenges in 2001 included globalization, urbanization, environment, growth sustainability, social development, and poverty reduction.

9. These challenges remain today, but in addition, ADB faces a potential major change in its market place as more economies develop into middle-income countries. For example, the

⁵ ADB. 1989. *Study of the Operational Priorities and Plans of the Asian Development Bank*. Manila; and ADB. 1983. *The Asian Development Bank in the 1992: Panel Report*. Manila.

⁶ LTSF, page vi.

⁷ ADB. 2001. *Moving the Poverty Agenda Forward in Asia and the Pacific. The Long-Term Strategic Framework of the Asian Development Bank (2001–2015)*. Manila.

⁸ ADB. 1989. *Study of the Operational Priorities and Plans of the Asian Development Bank for the 1980s*. Manila; and ADB. 1983. *The Asian Development Bank in the 1990s: Panel Report*. Manila.

⁹ ADB. 1999. *Fighting Poverty in Asia and the Pacific: The Poverty Reduction Strategy*. Manila; and ADB. 2000. *Private Sector Development Strategy*. Manila.

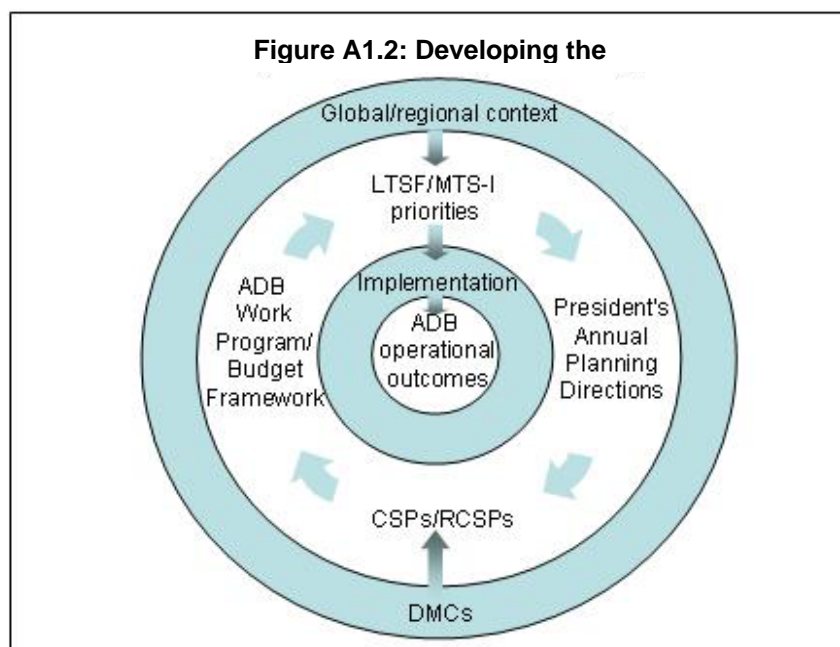
PRC, with current foreign exchange reserves in excess of \$1 trillion, borrows from ADB at ordinary capital resources (OCR) rates with an annual ceiling of \$1.5 billion. The high growth performance of India and the PRC has meant that increasingly ADB faces competition for its lending activities from the commercial sector. For both India and the PRC, a key issue is the potential financial impact on ADB of these countries reducing or even eliminating their borrowing levels, albeit there are substantially increased volumes of OCR lending to South Asian (Bangladesh, Pakistan) and Southeast Asian countries (e.g., Viet Nam) in 2006, and a pipeline of OCR-funded projects for 2007.

B. Concerns Raised during LTSF Preparation

10. The LTSF was prepared using a consultative process that involved a wide variety of stakeholders including DMCs, shareholders in all member countries, and ADB staff. It also benefited from the views and guidance of a Senior Advisory Panel of external experts, and consultations with multilateral and bilateral development partners and representatives of nongovernment organizations (NGOs) and civil society. The concerns raised at the institutional level included the need to (i) identify resource requirements to meet the strategic framework; (ii) understand the strengths, weaknesses, and constraints ADB had in terms of developing partnership; (iii) clarify ADB's role in private sector development; (iv) specify the organizational and staffing changes needed; (v) specify how the ADB wished to become a knowledge-based institution; (vi) be selective in line with given ADB's comparative advantage and resource constraints; and (vii) identify and incorporate performance benchmarks into the LTSF and to revise them periodically.

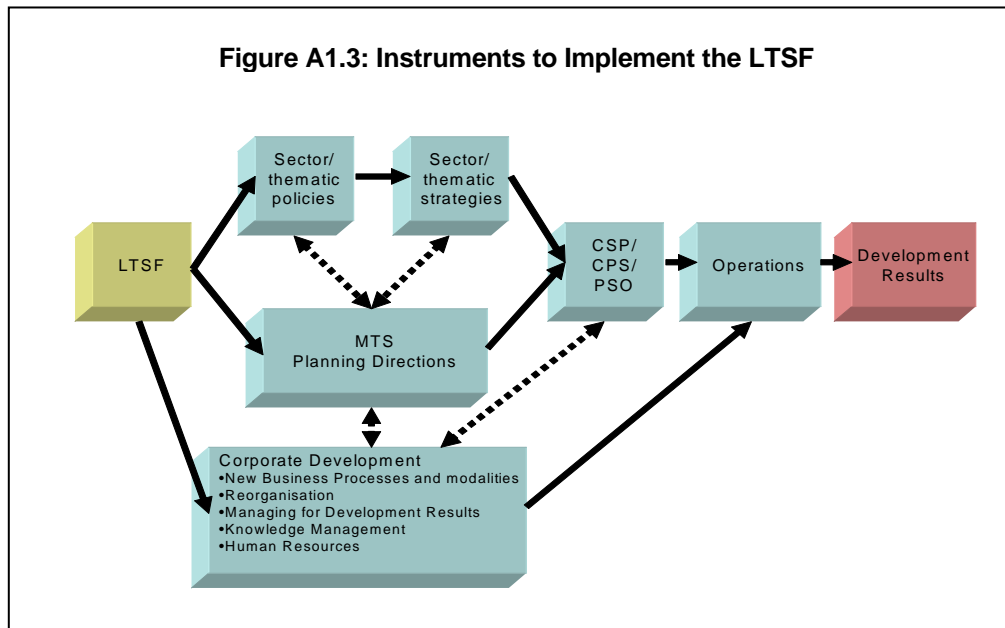
C. Implementation of LTSF

11. Figure A1.2 summarizes the processes leading to the LTSF implementation.



12. Under the overarching poverty reduction strategy, the LTSF defines three strategic areas (sustainable growth, inclusive social development, and governance for effective policies and institutions) and three cross-cutting themes (private sector development, supporting regional

cooperation for development, and environmental sustainability). To underpin the implementation of these strategies, it further defines corporate operating principles and modalities, which can be summarized as (i) operating principles: ensuring country leadership and ownership of development agenda, long-term approach to development assistance, measuring impact, and strategic alliance; and (ii) operating modalities: cluster approaches, sector-wide approaches, new partnerships, DMC ownership of TA, regional funding mechanisms, and new private sector modalities. These principles and modalities have been deployed to varying degrees. Furthermore, ADB identified the organizational changes and requirements necessary for implementing the operational priorities and operating principles with greater efficiency to ensure that the development impact of its assistance was enhanced. The instruments used to implement the LTSF are summarized in Figure A1.3.



D. Preliminary Strengths, Weaknesses, Opportunities, and Threats Analysis and the LTSF

13. A preliminary analysis of available information undertaken as part of this approach paper highlights a number on issues concerning the LTSF, which are presented below in the form of an initial strengths, weaknesses, opportunities, and threats analysis. This analysis will be further developed during the diagnostic of the study. Appendix 2 contains a preliminary analysis of the development of LTSF supporting strategies and policies.

Table A1: Preliminary SWOT Analysis

Strengths	Weaknesses
<p>Clear objectives and goals</p> <p>Supporting reform agenda</p> <p>Synergy with other donors on need for and approach to poverty reduction and meeting MDGs</p> <p>Recognition of importance of knowledge management and development of best practice</p> <p>CSPs (as reviewed by CAPEs) were mostly evaluated as relevant and responsive</p> <p>Excellent market perception and credit rating</p> <p>Very high regard from client countries</p> <p>Trusted catalyst in regional economic cooperation</p>	<p>Operations do not follow strategic areas and cross-cutting themes in a balanced manner (e.g., focus on sustainable development rather than inclusive social development)</p> <p>Poverty reduction strategy appears to largely overlap LTSF</p> <p>MTS-I/II do not contain time bound action plans with accountabilities</p> <p>Strategy does not clearly address diverging requirements of WPCs, DMCs, and newly emergent MICs</p> <p>Cumbersome procedures and centralized decision making</p> <p>Sluggish progress in approvals, disbursements, new knowledge dissemination, and capacity building</p>
Opportunities and Challenges	Threats and Risks
<p>To remain relevant, responsive, and competitive in changing market environment</p> <p>Realignment of strategy with changed development priorities (e.g., MTS-II and beyond)</p> <p>Development of new lending instruments and operating modalities in response to changing markets (e.g., rising importance of private sector operations)</p> <p>Introduction of new corporate processes present opportunities for increased operational efficiency (e.g., NBP, recent reorganization, and IEI)</p>	<p>Potential for key clients (MICs) to cease borrowing and/or repay loans earlier</p> <p>Increased competition from commercial sector for traditional operational areas (e.g., physical infrastructure)</p> <p>Some DMCs require more emphasis on rural rather than urban development and social rather than physical infrastructure, areas in which ADB does not have a strong competitive advantage</p> <p>Some reputation risks (procedures, capacity/staffing, and accountability)</p>

ADB = Asian Development Bank; CAPE = country assistance program evaluation; CSP = country strategy and program; DMC = developing member country; IEI = Innovation and Efficiency Initiative; LTSF = long-term strategic framework; MDG = Millennium Development Goal; MIC = middle-income country; MTS = medium-term strategy; NBP = national business processes; SWOT = strengths, weaknesses, opportunities, and threats; WPC = weakly performing countries.

Source: Operations Evaluation Department study team.