

LTSF Review
Consultations with the Government of Canada
Ottawa
9 September 2007

Summary of Discussions

A. Introduction

1. A consultation meeting on the review of ADB's Long-term Strategic Framework with representatives of the Government of Canada was held on 9 September 2007 in Ottawa. (List of participants attached).
2. The consultations focused on three main issues: (i) risks and challenges of the Asia and the Pacific region as identified by the Eminent Persons Group (EPG); (ii) strategic options for ADB in addressing these risks and challenges and the relevance of the EPG recommendations on operational priorities; and (iii) ADB's role and operational strengths and weaknesses.
3. Participants expressed their appreciation for the opportunity to share their views on ADB's long-term strategy and actively discussed the development challenges of the Asia and the Pacific region and their implications for ADB's role, strategy, and operations. The discussion is summarized below.

B. Risks and Challenges of the Asia and Pacific Region

4. Participants generally endorsed the EPG's diagnosis of risks and key challenges of the Asia and the Pacific region. They also drew attention to the following issues:
 - i. It is important to identify not only emerging risks, but also *recurring risks* in the region, e.g. natural disasters such as earthquakes and floods that have clear implications for example for infrastructure projects, as well as man-made challenges such as recurring financial crises.
 - ii. Gender-based challenges are pervasive in the region and a key source of inequality and poverty. It is important to recognize gender as not only a "social" issue, but fundamentally and economic one. It relates to the role of women in development – a key factor in sustainable and equitable growth.
 - iii. There should be a clearer appreciation of the institutional environment in the region and its implications for Asian development, e.g. APEC, ASEAN.
 - iv. It is important to understand not only risks, but also at opportunities in the region. For example, the very successful development experience of countries such as Singapore and Malaysia provide an important resource for other DMCs as potential sources of expertise and case studies to inform their development efforts.

C. Strategic Focus and Operational Priorities

5. A number of *general issues* were raised with particular relevance to ADB's strategic focus and operational priorities. These included the following:

- i. A process of formulating periodic LTSFs is perhaps not the most effective way to manage strategy and operations in a rapidly evolving region where challenges and conditions emerge and change quickly. Could there be a more effective strategic management process for ADB that is more responsive to the dynamics and complexity such a diverse and rapidly changing region?
- ii. The strategic focus and associated operational priorities seem to be aimed broadly at supporting economic growth. Is this ADB's comparative advantage?
- iii. The strategy proposed by the EPG seems to suggest a significant role for grants. If that is the case, what are the implications for ADB's financing role?

6. With respect to the EPG's recommendation for a *three-pronged strategy* focused on inclusive growth, environmentally sustainable growth, and regional cooperation, there was a particularly vigorous discussion of *inclusive growth*. In this context, the participants drew attention to the following issues:

- i. Some participants felt that the meaning of inclusive growth is not clear and its rationale is not convincing as the basis for the core strategy of ADB. In particular, it is not clear how inclusive growth will address more effectively the challenge of poverty and development in the region, as it seems to be defined primarily in economic terms, with limited reference to social issues and sectors.
- ii. It is certainly the case that inequality is a key challenge in the region and requires attention. However, to a large extent this is a political issue. Therefore it is not clear how an institution such as ADB can help address inequality as its central mission, given the latter's primarily political character.
- iii. Some participants noted that inclusive growth in some form has always been part of ADB operations, e.g. a focus on "inclusive social development" in the present LTSF. Therefore it is not clear what exactly is new here. Nor is it clear what are lessons from past operations that will allow ADB to address the challenges of inclusive growth more effectively in the future.
- iv. At the same time many participants stressed that inclusive growth is an important step forward in recognizing inequalities of all kinds at the root of poverty. Inclusive growth then provides an important new focus for ADB's strategy and operations, necessary for addressing poverty and supporting sustained growth. Therefore ADB's mission should include a focus on both poverty and inequality (inclusive growth), but should reflect better the social dimensions of development.

7. There was strong support from some participants for a focus on *regional cooperation and integration*. Regional integration is seen as the “engine of growth” for many of the countries in Asia and therefore requires attention and support. However, it was noted that for an institution such as ADB it is much more difficult to finance regional cooperation initiatives than country-based operations, and therefore it is important to develop appropriate financing mechanisms.

8. *Selectivity and Focus*: Participants noted that selectivity and focus, while important given ADB’s resource and organizational constraints as measured against the long list of challenges identified by the EGP, are very difficult to address operationally in practical terms. There are many diverse demands on the institution by DMCs and shareholders. Issues raised included the following:

- i. There is a basic dilemma for ADB of pressure for selectivity and focus given limited resources and capabilities; but at the same time there is also a push by DMCs and shareholders for ADB to be responsive to a wide range of development issues and demands.
- ii. Fundamentally, Asia is a very diverse region with very different DMCs that present widely differing contexts and needs for ADB’s activities. It is important to reflect these differences in ADB’s strategic focus and operations. Therefore it is essential to have the flexibility for a range of institutional responses in ADB’s operations in very different DMC settings.
- iii. Ultimately, ADB should take a country-driven approach: it is the DMCs that should determine the focus of ADB’s strategy and operations.

9. *Operational Priorities*: There was a general support for the six operational priorities identified by the EPG.¹ However, questions were raised about some of the suggested areas, while additional potential priorities were also identified for attention. The following are the key issues raised by participants:

- i. Some participants noted that there are too many operational priorities, and given resource constraints, ADB needed to be more selective and focused.
- ii. Operational priorities seem to be addressing primarily economic issues, with insufficient attention to social issues. For example, in the context of *regional cooperation* such as the GMS program, there is limited attention paid to the social implications of infrastructure projects, e.g. as the source of “negative social externalities” such as the cross-border transmission of disease.

¹ These six sectors are: infrastructure development; financial sector development and intermediation; energy and environment; technology development and innovation; regional integration; and knowledge management.

- iii. *Knowledge management* was seen as an important area of focus. It was suggested that a more appropriate concept may be a role for ADB as a “knowledge broker”. That is, ADB is likely to be most effective brokering knowledge and experience related to development from diverse sources both within and from outside the region. This can include a wide range of institutional partnerships including with bilateral agencies, private sector, and NGOs; as well as supporting South-South links facilitating the sharing of experience and knowledge transfer among DMCs.
- iv. It was suggested that ADB needs to develop more effective linkages with the *private sector* as a key strategic partner; and this will also support other operational priorities. For example, two important cases of successful development in the region—China and India—have been driven by business. Similarly, there are instructive examples of the potential value of such a partnership as related to particular operational priorities. For example, in the case of *regional integration* the private sector is increasingly thinking and operating regionally, well ahead of governments and MDBs—with potentially important lessons for ADB. The private sector has also been the primary source of *technology and innovation* in the region.
- iv. It is important to include *good governance*, including corruption, as an operational priority. This is a key challenge facing the region. An important dimension of good governance in Asia involves how to manage rapid growth, and the role of government in the distribution of the benefits of such growth.
- v. *Gender-based inequality* is an important challenge in the region that needs to be addressed as an operational priority. It should be approached not only as a social issue, but as an integral part of sustainable and inclusive economic growth. ADB is increasingly incorporating gender into its operations, but can and should further strengthen this dimension of its operations as a priority.

D. Role of ADB and Operational Strengths and Weaknesses

10. ADB’s financing role is marginal in the Asian context, given the overall volume of financial flows to the region. Therefore the challenge to ADB is how to define an effective role for itself: to identify niches where it can best leverage its limited resources. For this ADB needs to be able to position itself with respect to other MDBs, identifying its comparative advantage and value-added in the region. This also suggests that ADB needs to be relatively modest in “dictating” development strategies to DMCs; and should focus more on ensuring that it is playing an effective role in the region’s development.

11. In this context, it is important for ADB to focus on *partnerships*: to be able to work together effectively with other development partners and DMCs. From this perspective it is useful to think less in terms of “comparative advantage”—i.e. differences with other development partners—and more in terms of inevitable overlapping activities and how to maximize the effectiveness of joint initiatives. An important challenge to

ADB therefore is to be effective in managing relationships and partnerships with other development institutions and with the DMCs.

12. To a large extent ADB is a “supply-driven” organization, stressing project lending. It is relatively weaker in its analytic and results-based dimensions. However, institutional effectiveness requires a focus on monitoring and analysis of results and incorporating this into its on-going activities. It is not clear where the LTSF process recognizes a focus on results and experience as a basis for guiding ADB’s operations.

13. As part of the LTSF process ADB needs to consider explicitly the organizational implications of a new strategy: how does the organization need to change in order to ensure the effective implementation of the new LTSF. In this context ADB needs to make sure that its operations reflect the principles of good corporate governance.