

LTSF Review
Consultations with Canadian NGOs and the Private Sector
Ottawa
8 September 2007

Summary of Discussions

A. Introduction

1. A consultation meeting on the review of ADB's Long-term Strategic Framework with Canadian NGO and the private sector representatives was held on 8 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. The interrelationship between Asia and the rest of the world is a source of risks and challenges to the region. In this context, global imbalances represent a particularly important issue requiring attention, given the implications for and role of Asia with respect to these global imbalances and their resolution.
 - ii. Immigration — the migration of people — is an important challenge requiring attention, particularly in the context of poverty and inequalities as a key source or “driver” of the cross-border movement of people in the region.
 - iii. Strengthening corporate governance, broadly defined, e.g. government, private sector, civil society, is a key challenge facing many DMCs in the region.
 - iv. The uneven quality of human resources — shortage of qualified people — hinders the development of many of the countries of the Asia and the Pacific region, and this cuts across many other key issues. This is further constrained by a lack of professional standards to guide human resource development, e.g. in health.

- v. Housing is emerging as a central challenge in the region, particularly in the context of rapid and extensive urbanization.
- vi. It is not clear where the MDGs fit into the EPG's assessment of the challenges facing the Asia and the Pacific region.

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. Given the uniquely successful and sustained development of Asia, the question may be posed as to why there is a need for an ADB at this time. However, key development issues continue to face the diverse countries of the region, where the ADB can play an important role. Therefore the LTSF should define ADB's strategic focus and operational priorities clearly and convincingly in terms of the continued value of ADB in addressing the development challenges of the region.
- ii. In the context of the above, it is essential that DMCs "drive" the LTSF process. They have to "own" the LTSF in shaping its strategic and operational focus, closely linked to their development agenda and domestic priorities.

6. Participants generally supported the EPG's recommendation for a *three-pronged strategy* focused on inclusive growth, environmentally sustainable growth, and regional cooperation and integration. There was particularly vigorous discussion and generally strong support for *inclusive growth* and inequality as a core mission of ADB. Participants drew attention to the following issues:

- i. Inclusive growth is a new and innovative strategy that, although more difficult to understand than poverty reduction, reflects better the complexity and multidimensional nature of the development challenge. It provides a more comprehensive and therefore more appropriate basis for addressing key development issues, and for integrating ADB's operations.
- ii. It may be best to keep a poverty reduction as ADB's basic mission, and add to it inclusive growth (i.e. addressing inequalities). However, poverty should be defined more broadly than based on income alone (i.e. \$1/day), reflecting the multi-dimensional nature of poverty.
- iii. The challenge is to formulate effective operational programs for implementing inclusive growth, i.e. for addressing inequality. It is not clear that the operational priorities as presently defined by the EPG report offer much that is different from ADB's traditional operations. The question remains as to what ADB will have to do differently in order to implement a strategy focused on inclusive growth.

- iv. The dynamics of inequality are generally not well understood. Yet this understanding is essential in order to formulate operational programs that implement effectively a strategy of inclusive growth. In this context, it is important to have good indicators of success for addressing inclusive growth.
- v. Given persistent and pervasive inequalities in the region, it may be necessary as part of a strategy of inclusive growth to focus not only on equality of opportunity, but also on equality of outcomes.
- vi. Inclusive growth as a strategy is potentially more intrusive and threatening to DMCs than a focus on poverty reduction. It potentially widens the role of ADB in a country's development process.

7. *Selectivity and Focus*: Participants noted that selectivity and focus are important given ADB's resource and organizational constraints as measured against the long list of challenges identified by the EPG. However, selectivity and focus are very difficult to implement operationally. There are many diverse and competing demands on ADB by DMCs and shareholders. Issues raised included the following:

- i. There is nothing wrong with an "open-ended" approach to ADB's operations that allows significant flexibility to develop programs relevant to different and changing country contexts.
- ii. ADB's strategy and operations should be driven by the *demands* of the DMCs, not just perceived needs. That is, ADB's operations should focus on those areas where the DMCs are ready to borrow from ADB, and/or welcome its advice (e.g. technical assistance). Therefore ultimately it is the DMCs that should define what ADB should do at the country level.

8. *Operational Priorities*: There was 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. The very inclusive and broad list of priorities can accommodate virtually any kind of activity. For example, agriculture is not listed as an operational priority, but in practice, agriculture-related activities can be included under other priorities such as "infrastructure", "financial sector", "technology and innovation", etc. This is good in that it leaves a wide scope for operations at the country level, to be defined jointly between ADB and specific DMCs.

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

- ii. Operational priorities seem to focus on “hard” aspects of development. There seems to be little attention given to “soft” areas, e.g. social sectors, governance. Is this a basic shift away from these areas in ADB operations?
- iii. There was generally strong support for *knowledge management* as an operational priority, although participants noted that its meaning here is not clear. In this context, participants drew attention to the following issues:
 - It was noted that that “knowledge” has 2 different dimensions as related to ADB’s operations: (a) internal – ADB’s own use of knowledge in its operations; and (b) external – ADB’s contribution to DMCs’ and other institutions’ understanding of development issues, e.g. through advice and development research, advice and technical assistance, and exchange of experience. It was suggested that ADB should focus on knowledge in both its dimensions.
 - A better understanding of development issues by ADB is important in ensuring more effective operations. If aid is to be effective, particularly as it is often “top down driven”, it has to be anchored in clearer and deeper understanding of specific issues in particular countries. This will allow ADB not only to be reactive to development challenges in the region, but to anticipate and help create change—be a proactive partner to DMCs in the development process, contributing new knowledge.
 - Therefore knowledge management is really a cross-cutting theme that applies to and should shape all of ADB’s operations.
 - However, to be effective requires more than just a “bureaucratic” process of knowledge management. It has to involve the genuine creation and application of new knowledge by ADB in its own operations and to support DMC development. It is not clear that the incentive system and organizational culture of ADB at present supports this approach to knowledge management. To a large extent ADB is a bank, with a strong loan approval culture; and its key instruments such as TAs are not set up to effectively support knowledge management.
 - Universities can play an important role as partners including as a source of knowledge, research, and related training.
- iv. A priority should be given to water and sanitation in ADB’s operations, given their implications for poverty.

D. Role of ADB and Operational Strengths and Weaknesses

9. Participants stressed a potential gap on the one hand between the challenges in the region and the strategic focus and operational priorities recommended by the EPG; and on the other hand ADB’s existing organization. In particular, they noted the following:

- i. ADB is setting out a new agenda in a number of interesting dimensions, of which knowledge management is but one. But these new directions in strategy and operations may not be consistent with an organizational culture that seems to value primarily traditional loan approvals.
- ii. ADB needs to change its organizational culture, particularly how it manages people – both its own staff and external resources. Given the diverse and changing needs of the region, ADB needs to empower staff to take risks and to encourage innovation and change, and be rewarded for it. Unless this is done credibly and effectively, a top-down corporate culture not will allow ADB to change and therefore to implement a new and innovative strategy responsive to the challenges identified by the EPG.
- iii. In this context, the instruments of ADB also need to change, in particular the TA, a key mechanism for knowledge creation and management and for capacity building. To support a new strategy focusing on non-traditional areas, the TA needs to become more effective in (i) stimulating knowledge creation -- including an incentive structure that can attract the best available outside expertise; and (ii) in blending local (DMC) knowledge with foreign expertise on “best practice”.