

LTSF Review
Consultations with European Member Countries
Frankfurt, Germany
5th September 2007

Summary of discussions

1. Introduction

A consultation meeting on the review of the LTSF with European member countries of the Bank took place in Frankfurt, Germany on 5th September 2007, where a total of 17 member countries participated (see list of attendees attached). This meeting was preceded by a 'Breakfast Working Meeting' chaired by the delegation of Portugal, acting as current holders of the EU Presidency.

The consultations were structured around two main sessions: i) a first one dealing with the challenges of the region and the role of ADB up to 2020; ii) a second session dedicated to debate ADB's competencies and operational focus.

Participants expressed their appreciation for the opportunity to share their views on the development challenges of the Asia-Pacific region and on the review of ADB's long-term strategy.

One important point raised by several delegations, was related to the 'process' in which the LTSF review was to take place. Here, there was a call for 'transparency' from ADB in regards to sharing key documents in a timely manner in order to allow member countries to put their views effectively. There was also a wide call for the LTSF to be approved by the Board of Directors rather than just receiving an endorsement. Finally, it was pointed out that there was a need for a strong linkage between the LTSF review process and the ADF X replenishment.

2. Challenges of the region and ADB's vision and role to 2020

Officials from European governments generally endorsed the EPG's diagnosis of the risks and challenges of the Asia and Pacific region. However, numerous delegations pointed out that the scenario described in that report was over optimistic and that there was a need for a good deal of caution regarding possible set backs in the economic development prospects of the region. In this regard, delegations drew particular attention to the following concerns:

- All delegates reminded that income distribution is a growing problem for the region and that the negative consequences of rising inequalities could be of huge proportions and difficult to deal with;
- The rapid pace of economic growth in the region was clearly having a serious negative impact on the environment. In this regard, environmental degradation and climate

change had become serious concerns that needed to be addressed immediately by the international community.

In this regard, European member countries made the following comments regarding ADB's future role in the region:

- Poverty reduction should remain the overarching objective of ADB and this LTSF review process should not water down this mandate. Nevertheless, certain delegations pointed out that, taking into account the rapid changes in the region, there was a need to ascertain what it was meant by poverty and in this regard a \$ USD 2 per day reference was considered more appropriate for today's situation in Asia and the Pacific.
- In this regard, it was widely agreed that inclusive growth did not necessarily clash with ADB's agenda for poverty reduction. Inclusive growth should thus be a *means* of poverty reduction and not an end in itself. However, many European countries felt it was necessary to have more clarity of what exactly the concept of inclusive growth meant and in particular what it would add in terms of ADB's operations.
- Some intense debate took place regarding the 'business model' that ADB should adopt in order to stay relevant as a development partner in the region. In this regard, most delegates declared that ADB should not limit itself to a project financing institution but also assume a more important role as a financial intermediary for several DMCs.
- In the context of defining its future role, there was also a strong reminder of the importance of the international Aid Effectiveness agenda and thus numerous European member countries called for ADB to strengthen its efforts to implement the Paris Declaration and to further cooperate with other key multilateral and bilateral players in the region. Furthermore, there was also a call for ADB to get more involved in SWAPs (despite acknowledging that there was a learning curve process in their effectiveness). Finally, regarding this topic, some delegates suggested for the ADB and the WB to reinforce coordination regarding the reviews of their long-term strategies, which are taking place almost simultaneously.
- Taking into account the key challenges in the region, most delegations considered that ADB had an important role to play in areas such as the environment and energy efficiency and in promoting regional cooperation, namely dealing with the key aspects of regional public goods.
- It was also viewed that good governance was a crucial element in the future of the Asia-Pacific region and thus that it should also be a top priority in ADB's business model. In this context, there was also a call for the Bank to pay further attention to Capacity Development. However, participants raised the concern that in the case of these two themes, there was little clarity in how ADB is to include them in its reviewed LTSF.
- Some European member countries also raised the important issue related to need to pay particular attention to the resources required to implement this LTSF in a effective manner.
- Finally, participants also expressed their concern regarding ADB's capacity to undertake the internal reform necessary for the implementation of the revised LTSF.

3. ADB's Competencies and Operational Focus

The overall message in this process of 'operational selectivity' was that ADB should indeed focus on a few sectors and do them well rather than become a 'broad based' organization. In this regard, it was accepted that 'choices' need to be made and thus that ADB should be bold and go ahead with selecting sectors. However, once more, there was a reminder that the process needed to be transparent in order for member countries to have the opportunity to come back and discuss certain decisions. More specifically, the following comments were made:

- There was wide support for top four operational priorities: Infrastructure Development; Financial Sector Development and Intermediation; Energy and Environment; and Regional Cooperation.
- There were strong concerns regarding the last two priorities identified: Knowledge Management and Technology Development and Innovation. According to many European member countries, there are other international organizations better placed to provide these services and products. However, in order to be an efficient player, it was considered that ADB still needed to be strong in Knowledge Management within the sectors which it was going to specialize in, namely environment and energy efficiency and financial sector. In this sense, they should be 'cross cut' themes present in the four top priorities.
- Another concern raised, was that the first four priorities were clearly related to a 'limiting' definition of growth and did not deal with the inclusiveness aspects. Thus, there was a call for the ADB to have a strong 'inclusive consciousness' in the activities of these sectors. In this regard, as an example delegates suggested for a broad definition of 'infrastructure development', one that clearly has an impact on education, health and agriculture.
- However, when dealing with this selectivity process, some delegates considered that there is also a need for country specificity. ADB needs to have certain flexibility and take into account country contexts. In this regard, European member countries commented that a strong country presence was crucial, factor which ADB clearly does not have. This led to some participants raising the importance of ADB becoming a further decentralized institution.
- In this process of selectivity, coordination with other agencies was considered essential as comparative advantages had to be fully taken into account when choosing specific sectors. In addition, when pulling out of one particular sector, this process has to be done in a phased and progressive manner and in strong coordination with other stakeholders, namely DMC governments, other agencies and civil society. It is essential that another agency covers that sector from where ADB pulled out. Here again references to the importance of the Paris Declaration were made.
- There was also a call for more clarity regarding ADB's focus in private sector operations; the added value of ADB in supporting these activities has to be further defined and

highlighted. This was related to the need to avoid a situation of 'over-crowding' the private sector.

- Regarding Regional Cooperation and Integration, some participants highlighted the importance for ADB to focus on the aspects of regional public goods.

**ADB LONG-TERM STRATEGIC FRAMEWORK
REGIONAL CONSULTATION - FRANKFURT
5 SEPTEMBER 2007**

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