

## **LTSF Review Consultation Meeting with PRC**

25 September 2007  
Beijing, PRC

### **A. Introduction**

1. ADB had consultations on the review of the Long-term Strategic Framework with the relevant central and local government agencies, academics, national development financial institutions and private sector from the People's Republic of China (PRC) on 25 September in Beijing, PRC. The consultations covered four key areas (i) risks and challenges of the Asia Pacific Region, (ii) role of ADB and its mission, (iii) strategic options and operational priorities for ADB to address the challenges, and (iv) ADB's competencies and services. The PRC Government appreciated ADB's initiative to consult with all stakeholders. The Government supported the commissioning of the EPG report and the proposal to review the LTSF and address the issues emerging from the rapid economic development of the region.

### **B. Risks and Challenges of the Asia and Pacific Region**

2. EPG report is timely and clear in general. Asia is growing at an unprecedented pace. While, the challenges identified by the EPG and priorities suggested are generally valid, their relative importance could be quite dissimilar in different countries. ADB would have to take note of these variations. For example PRC's rapid economic growth has created imbalances across sectors and regions within the country and widened income disparities. While, the PRC as a whole grows rapidly, the same is not true uniformly in all sectors and regions. For instance there is scarcity of resources in some sectors such as the agriculture, and in the central and western regions.

### **C. Role of ADB**

3. The Government acknowledged ADB's contribution to fostering economic growth and alleviating poverty in Asia; income poverty has fallen significantly in PRC although the absolute number of the poor is still high and the level of non-income poverty remains a concern. Rapid economic growth also created disparities. Inclusive growth will place emphasis on investments in social sectors, and the delivery of social services would help narrow disparities. However, inclusive growth approach should not instead ignore the poverty alleviation agenda. Further, overstating the role of equal opportunity as the center in inclusive growth may be prone to suggest political implication to the Bank's operation beyond its mandates.

### **D. Strategic Focus**

4. ADB's strategy should not pursue inclusive growth at the expense of poverty alleviation. The strategy should be (i) forward looking based on scientific prognosis of the future; (ii) flexible enough to address diverse development needs of DMCs at different stages of development; and (iii) feasible, based on ADB's own resources and country capacities.

5. **Operational Priorities.** ADB should focus mainly on pressing regional issues and desist from taking up global issues as priorities

- ADB has considerable strength and operational experience in infrastructure, energy, and environment sectors. Future ADB strategies should be based on this rich experience in implementing infrastructure projects. Within infrastructure, ADB should focus adequately on agricultural infrastructure and strengthen regulation and management of the agriculture sector. Expand private sector operations using innovative approaches. In PRC, ADB should also focus its operations in the western and central provinces. These should form the core business of ADB.
- Reforming and strengthening the financial sector should receive a high priority. Financial systems in most Asian countries are still underdeveloped. Financial sector strategy should have three key components, (i) improving access to finance in rural areas, (ii) mobilizing regional savings for projects in the region through innovative instruments, and (iii) helping to establish early warning systems in DMCs to anticipate and mitigate impending crises in the financial sector.
- Regional cooperation is another core area of strength which ADB should continue to pursue. However, given its limited staff resources, ADB should prioritize and sequence implementation of the four pillars of its RCI strategy with larger emphasis placed on promotion of regional trade and cross-border investments. RCI should be based on equal participation by all countries and ADB's role should be increasingly one of facilitator/catalyst. LTSF should look at the issue of sequencing and prioritizing the four pillars of the RCI strategy.

Some practical suggestions were made to promote RCI, for example in customs administration, private sector development, regional public goods, and new research initiatives. It was also proposed that rising disparities within the region can be addressed through regional cooperation and integration. However, ADB's focus should remain regional and not global.

- Increase the focus on knowledge management and innovation. Provide more high quality products to members. ADB does not have World Bank's strength in this area but has regional knowledge and experience which is its forte. Utilize that strength. Reliance on consultants needs to be reduced and better managed by developing staff capacity in knowledge development and management, and innovation. Work closely with the Governments instead of working independently and also shift focus from national level to provincial level issues.

Emphasis, however, must be on practicality and feasibility. Knowledge should be useful and be provided together with funding and technology. PRC would also welcome opportunities to share their knowledge and

experiences in development, while obtaining new information and innovative ideas from around the region. ADB could provide such a platform for sharing knowledge and information, particularly on successful cases of poverty reduction within the region. Dissemination of TA outcomes may be a good starting point.

- Environment is a key issue which has to take into account the differences in country circumstances and ADB's comparative advantages. ADB could help strengthen DMCs capacity through provision of financial resources and technical assistance. Improve support to reduction of emission through non-conventional sources, energy efficiency, and energy conservation, particularly on the demand side and in the housing sector. Also consider expanding coverage to rural environmental issues and the problem of land degradation.
- Inclusive growth requires promotion of equal access to social services. MDGs are still a problem and social development, particularly education, health, and social security should receive priority. ADB should provide innovative financing for education, health, and social safety net as well as support capacity building in public health and disease prevention.
- ADB will need to expand its operations for private sector development. There are successful cases but much more need to be done in PRC. ADB must be innovative but also pragmatic. Bringing PPPs to delivery of medical services and education in rural areas would be important considerations for PRC in this regard.

#### **E. Operational Strengths and Weaknesses**

- ADB's own reforms should place emphasis on the core function of project financing while increasingly mixing knowledge in operations, bringing best practices and technologies to DMCs, with emphasis on capacity development. This requires strengthening of ADB's knowledge management capacity. The institutional reform efforts should also cover budgetary policies, human resource and other decision making processes of ADB.
- The current governance structure no longer reflects the new global economic structure and the relative positions of all member countries. This may undermine the long-term development of ADB. Therefore, ADB would need to initiate reform in its ownership structure in due time to reflect the changing context of the global economy.
- Recruit more domestice consultants to bring good practices and ideas from successful experiences within the country. . Develop local expertise – improve cooperation with local research institutes. It is important that ADB project managers understand the operational context of PRC to achieve desired outcomes.

- Reform operational policies to ensure operational flexibility, streamline procedures, in alignment with country systems with a view to reducing loan and TA processing time and transition costs.
- Improve internal communication and coordination to reduce duplication of work and further decentralize operations. These policies will help to reduce clients' compliance costs. ADB's high turnover rate in project managers should be addressed.

## **Speech at ADB's LTSF Consultation Workshop**

*By Yang Shaolin, Deputy Director-General, International Department of MOF  
9:00 AM, Sep 25<sup>th</sup>, 2007, Minzu Hotel Beijing*

### **Distinguished ADB officials, delegates, ladies and gentlemen:**

Good morning! It is a pleasure to attend today's LTSF consultation workshop. Firstly, on behalf of the International Department of the Ministry of Finance, please allow me to extend warm welcome to Mr. Satish Rao, Director General of ADB's East Asia Department and other ADB officials, as well as the delegates who take time out of their tight schedules to attend this meeting. I would also like to extend my sincere thanks to all the preparations made by ADB PRCM for this workshop.

To better promote poverty reduction and development in Asia and Pacific region, ADB formulated a Long Term Strategic Framework (LTSF) for 2001 to 2015, and later ratified key policy documents for two mid-term strategies and strategy for regional cooperation and integration. In recent years, the Asian Pacific region has undergone fundamental economic and social changes. To successfully adapt to such changing context, ADB decides to review its LTSF, with the aim to conclude amendments and updates to LTSF from now to 2020, by analyzing the opportunities and challenges faced by the region and discussing ways to improve ADB's effectiveness. This timely review is crucial and will surely generate profound impact on the region's prospects. Today's workshop shows that ADB is responsive to such changes and the impact of such changes on developing member countries (DMCs) including China. It also shows ADB is willing to listen to its DMCs. The Chinese Government welcomes ADB's such efforts.

The Chinese Government attaches great importance to the LTSF review. As the window agency for ADB's operations in China, the Ministry of Finance (MOF) has already circulated this document to concerned government agencies for comments. Today, we also invited representatives from central ministries, development banks, local government agencies and academia to further discuss the LTSF. To facilitate the discussion, I'd like to elaborate a few points.

### **1. Basic Principles**

We hope that during the formulation of a new LTSF, ADB could consider the following three principles:

**Forward-looking.** Experiences and lessons of the previous LTSF should be drawn to make scientific projection of future development context. More scenario analysis should be used to ensure the LTSF effectively guides ADB's operations in long run.

**Flexibility.** The DMCs in this region are experiencing different development stage. Regional development disparities exists even within the same country. Therefore, there is no "one size fits all" strategy for all countries and regions. Risks and challenges of different countries and regions need to be analyzed to improve the practicality of LTSF with flexible and open attitude.

**Feasibility.** By analyzing opportunities and challenges, long-term strategies and operation focus should be determined according to ADB's capacity and strength and the DMCs' changing demands.

## **2. ADB's Vision and Mission**

In the four decades since its founding, ADB has been playing the role of a regional financier. Through financial and technical assistance, it contributed significantly to the economic and social growth of the member countries. Chinese Government fully recognizes and appreciates ADB's contributions.

With continuous economic growth, population living in absolute poverty decreases in the region. But the absolute number is still high, with emerging issues like non-income poverty and income distribution inequality. Therefore, we believe that ADB should adhere to its mission of reducing poverty and promoting development. While advocating inclusive growth, we should not overlook the impact of traditional poverty reduction activities and those measures applied in these activities.

As for the three "shifts" in strategic focuses of ADB, we basically agree and principally support. And I would like to deliver several opinions here as follows:

### **1) Inclusive Growth**

The concept of inclusive growth, as proposed by ADB, has more extensively demonstrated the link between poverty reduction and growth in comparison with pro-poor growth in the past. It emphasizes more inputs in education, health, social security and other public services to improve people's well-being, especially that of the disadvantaged groups. This can contribute certain value to the solution to the widening gap between the rich and the poor in developing countries in the region, in particular in the middle-income countries. However, it must be clearly defined that inclusive growth is not equivalent to equal opportunity, as absolute equal opportunity does not exist at all. Inclusive growth should include that inclusiveness may be improved by means of income redistribution and improvement in social welfare net in a context of unequal opportunities. Meanwhile, I need to reiterate that ADB, as a regional development institution, should adhere to the non-political principle and operate within the scope defined by its charter. It should fully respect the willingness of its member countries and avoid rigidly imposing its opinions on the hosting countries.

### **2) Environmental Sustainability**

Environmental conservation has increasingly become a global theme, and with the participation of various stakeholders, ADB should identify its proper position in accordance with its comparative advantages and capacity. Environmental problems may be resolved within the framework of sustainable development, and ADB should recognize the differences of various countries and regions and avoid using universal standards and models. We agree that ADB may help strengthen DMC's institutional capacity building by providing financial resources and technical assistance to improve management of environmental and energy issues. .

### **3) Regional and Global Issues**

Regional cooperation is ADB's unique strength. Cooperation mechanisms like GMS that ADB initiated has become a role model of regional cooperation and south-south cooperation. ADB should continue promoting the economic and social sector cooperation of member countries and step up regional cooperation efforts. The regional cooperation and integration promoted by ADB should be equally participated by all member countries, and implemented with active, practical, open and inclusive projects in various forms to foster business environment, assist related countries to facilitate trade activities, expand regional trade, encourage investment from outside of the subregion and promote economic prosperity. However, in the mean time, ADB's strategic priorities should focus on regional rather than global issues and challenges.

### **3. Operational Focus**

#### **1) Strengthen ADB's Advantage in Supporting Infrastructure**

Infrastructure development is playing a key role in promoting economic growth, poverty reduction and regional cooperation, and the region still faces tremendous funding shortage in this area. It is necessary for ADB to continue its support to infrastructure development. On the other hand, ADB has comparative advantage in this area. If ADB adopts infrastructure development as its strategic focus, it would help ADB bring this advantage into full play.

#### **2) Expand Private Sector Operations**

ADB now identifies regional cooperation and integration, promotion of private sector development and environmental conservation as the three cross-cutting strategic pillars. As more emphasis is to be made to regional integration and environmental conservation, we hope that ADB expands its private sector operations, gives more attention to strengthening cooperation between the public sector and the private sector and promotes private sector's role in local development and regional economic integration.

#### **3) Improve Knowledge Management and Innovation**

We believe that ADB will give more emphasis to knowledge management and innovation in the new LTSF. With the growing economic and financing capacity of the DMCs, their demand for lending from ADB will decrease gradually, but in the meantime, the member countries require more high quality knowledge products. Therefore, ADB should respond to this trend and the demand of more knowledge services and support its clients by providing funds, knowledge and technology in integrated manner. In knowledge management, ADB should make the best use of its resources, further reform technical assistance (TA) policy, improve TA impact, engage more local consultants and enhance transfer and dissemination of TA outcomes.

#### **4) Increase Support to Energy Conservation and Emission Reduction**

As Asia has a huge population and faces the common issue of accelerating development, demands for energy and resource will grow rapidly. It is suggested that ADB strengthen research and development of new energy and renewable resources to guide the region to overcome such constraints. DMCs in the region urgently request

funds and technologies for energy conservation and emission reduction. ADB should mobilize more funds to support the application and promotion of energy conservation and emission reduction technology. This will help enterprises reduce emission and energy consumption which lead to achieving the targets of energy conservation, emission reduction and sustainable development.

#### **5) Introduce Innovation in Social Sector Assistance**

The region still faces great challenges in realizing the non-income targets under MDG, and after most member countries become middle-income countries, the reduction of non-income poverty will become their main poverty reduction objective. Therefore, development of social sectors such as education, health and social security net will become the operational focus of ADB. Innovative financing modalities need to be introduced to shift more weight to education, health and social security which helps achieve the MDGs.

#### **6) Promote Financial Sector Reform**

Financial systems in most Asian countries are still underdeveloped, and in view of the huge amount of savings in the region, it is imperative to effectively utilize such huge amount of deposits by improving the financial systems. In the meantime, it is also an important theme to improve the rural financial system to provide stronger support to production and livelihood of the poverty-stricken populations. Therefore, it is suggested that ADB adopt promoting financial sector development as one of this priority areas.

### **4. ADB's Positioning and Its Own Reform**

#### **1) Further Clarify ADB's Position in Knowledge Cooperation**

We believe that ADB should continue its operations in project finance and technical assistance as its core operations. On such basis, it should improve its capacity in knowledge cooperation, and enrich reserves of talent and knowledge to provide timely and quality services to member countries. The focus of assistance should be building up cooperation platform for experience exchange and knowledge sharing among member countries, as well as improving DMCs' capacity to summarize their own development knowledge. This knowledge platform should be used to summarize successful experiences in poverty reduction and development in the region as well as dissemination of such experiences. Meanwhile, ADB should help DMCs review their successful experiences in poverty reduction and development. This will help strengthen DMC's research capacity and knowledge sharing.

#### **2) Actively Push Forward Internal Reform**

In responding to the shift of strategic priorities, ADB should focus on its own capacity building and accelerate reform of operational policies, including reforming budgetary policies, improving HR and loan policies, streamlining of lending procedure, updating lending products, reducing transaction costs, and accelerating decision-making process which will help better address the economic and social challenges of the region.

### **3) Further Improve Governance**

The current governance structure of ADB is no longer able to reflect the new global economic structure and the relative positions of all member countries. This may undermine the long-term development of ADB. Therefore, ADB needs to initiate reform to stock ownership in due time to reflect the changing context of global economy.

Ladies and gentlemen,

The Chinese Government highly values its cooperation with ADB, and the LTSF consultation is regarded as one of the important aspects of deepening our bilateral partnership. We hope that all the representatives will take this opportunity to actively express views and exchange ideas. Your comments will help ADB better position itself and continue to serve poverty reduction and development of the region.

Finally, we wish the LTSF consultation a success. Thank you.