

**LTSF Review Consultation Meeting
Non-borrowing Regional Member Countries
Government Officials**

**31 August 2007,
Tokyo, Japan**

Summary of Discussions

A. Introduction

1. A consultation meeting on the review of ADB's Long-term Strategic Framework (LTSF) with senior Government officials from 7 non-borrowing regional member countries was held at the ADB Institute on 31 August 2007 in Tokyo, Japan. (see Attachment for List of Participants). The consultation meetings focused on three key areas (i) Challenges of the Region and ADB's Vision to 2020, (ii) Role of ADB, and (iii) ADB's Competencies and Operational Focus.

2. 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 Pacific region and their requirements for ADB's assistance. The discussions are summarized as follows.

B. Challenges of the Region and ADB's Vision to 2020

3. Following questions were raised to participants on the future challenges of the region and ADB's vision.

- Do you agree with the risks and challenges of the region?
- Given these challenges, what should be ADB's vision to 2020? – should it continue to be “an Asia and Pacific Region free of poverty?”

4. Participants generally endorsed EPG's diagnosis of the challenges¹ of the region and ADB's vision to 2020. They also drew attention to the additional challenges listed below but felt that ADB should be selective in which regional challenges it should tackle directly, as some challenges might be better addressed by other players:

- Urbanization - this has linkages to infrastructure, environmental degradation. Related to the issue of urbanization, would be water supply, migration, and rural sector development,
- Climate change, though could be covered under environment degradation, given the magnitude of the issue it would require special focus,
- Natural calamities, as Asia has suffered from numerous natural calamities in recent years, e.g., cyclones, tsunamis, and earthquakes,
- Security issues, regional threats and terrorism,

¹ These key issues are: rising disparities; unresolved poverty issue; environmental degradation; infrastructure bottlenecks; underdeveloped financial system; regional and global integration; innovation and technological development.

- Aging population, though may not be true for all countries in the region, and
- Institutional weaknesses and the importance of improved governance for public institutions of the region. Legal and regulatory frameworks were pointed out as being essential to improve overall governance in the region.

5. On inclusive growth, its relationship with poverty reduction was questioned. It was felt that more information on its operational implications for ADB would be needed to further discussions on adopting inclusive growth as a strategic thrust. While noting the importance of rising disparities in the region, benchmarking inclusive growth against trends in gini coefficient is not advisable. More equitable distribution of income/expenditure should be a national responsibility and not ADB's, although the concept of inclusive growth itself could serve to aid improving governments' operational efficiencies and delivery of social services.

6. On ADB's vision, there was consensus that ADB should not change its vision statement from "a region free of poverty". Poverty reduction should remain ADB's core mandate and for some countries maintaining this vision would be paramount to their continue support for ADB. Several participants felt that there should be a balance between ADB's support to middle income countries (MICs) and more vulnerable economies of the region.

7. Moreover, participants felt that ADB will need to look at its operational efficiencies and do away with time consuming, slow, bureaucratic processes. Some noted lack of capacity and expertise too thinly spread within the organization. Participants expressed their desire to see the reform agenda discussed in ADF IX continue under the current ADF X negotiations and be adequately covered under the LTSF. In this regard, more synergy between ADF X negotiations and LTSF formulation was requested.

C. Role of ADB

8. Following questions were posed to the participants on ADB's future role.

- Should ADB's business model remain centered around project financing?
- How could ADB support knowledge development of the region?
- What other value added products/services should ADB provide?

9. It was generally felt that ADB's business model should remain centered on project financing, based on country needs. General endorsement was also given to increased lending in policy-based loans and SWAPs but it was emphasized that ensuring effective feedback from developing member countries and evaluating project outcomes would be integral to improving ADB product-mix. Furthermore, it was reiterated that efficient delivery of aid is just as important, having implications on final results of ADB operations.

10. Both knowledge and governance were highlighted as essential areas of ADB operations. However for knowledge, ADB should not duplicate efforts of other institutions, such as the OECD, World Bank, IMF and the academia. ADB's knowledge building should focus on selected issues, entrenched on its operational focus with emphasis on its application. In particular to serve its MIC clients, ADB's knowledge on financial markets and energy efficiency/

environmental sustainability will likely grow in their importance. Strong collaboration with other institutions was highly encouraged in this regard.

11. How knowledge and technology can be transferred to those in need must be discussed further. Sending experts to developing member countries, as has been the case for many technical assistance projects, is not always so fruitful. Knowledge and capacity development must always be seen within an appropriate context of the country being supported.

12. ADB has a unique role in regional cooperation and integration. It has played a constructive role of a mediator and promoter of regional cooperation and integration and can be expected to continue with this role in the future. Given ADB's knowledge and Asian perspective, there are gaps that can be filled in knowledge sharing. For instance, a specific case in which some Asian countries were not included in OECD studies was cited. ADB could appropriately share knowledge on policy issues within the region in collaboration with others. A recommendation on promoting ICT and e-government, which would improve efficiency, enhance transparency and reduce corruption, was also made.

D. ADB's Competencies and Operational Focus

13. Following questions were raised to participants on the ADB's Competencies and Operational Focus.

- What are ADB's competencies?
- What should be ADB's core operational priorities to meet the future challenges of the region?
- How can ADB be selective in its operations and be responsive to range of client needs?

14. In terms of operational focus, the MTS II was generally regarded as the right framework going forward. In the list provided to the participants in the meeting, infrastructure, financial sector development, energy and environment, and regional integration could appropriately be endorsed as ADB's operational focus. Sub-sovereign lending may be an option for intervention, but it would be vital that a risk management system is adequately in place.

15. More important, however is ADB's effectiveness in the delivery of its assistance. ADB will need to address such impediments as; (i) overly centralized operations and decision making, (ii) rigidity in its procedures; and (iii) lack of adequate autonomy in its resident missions. Some participants explicitly stated that they were not fully satisfied with the achievements made by ADB thus far and ADB will need to renew its commitments to become more nimble, flexible, and responsive, as was suggested in the EPG report.

16. Concerns were also raised on ADB taking on a role in macroeconomic management or financial sector monitoring and supervision, which would traditionally fall under the mandate of IMF. The need to further develop the financial sector of the region was recognized and it was suggested that ADB should provide support to this sector from the development perspective, in cooperation with other donors. Support to the Asian bond market was seen as a good example. ADB, in assisting financial intermediation should ensure that it is not crowding out the private sector.

17. Although knowledge is important, ADB should not be a knowledge institution on all matters concerned. Given the regional insights that may not be available

elsewhere, ADB would have an inherent role to play in certain areas of development as a knowledge bank in partnership with others and may also provide a platform for sharing knowledge within the region.

18. In terms of the operational focus, it was generally agreed that infrastructure development should continue to be an area of priority for ADB together with environment and “climate change” a major topic that would be discussed in more detail in the coming years. Coordination with international organizations would be important in this area of assistance. On climate change, concrete measures should be presented, keeping in mind that there is a need to balance energy efficiency with development in assisting its developing member countries.

19. In providing infrastructure support to the middle income countries with access to private sector funding, it was suggested that there may be a need to concentrate ADB’s support to those areas that will have direct linkages to poverty reduction or energy efficiency and environment. Support was also given to ADB’s focus on regional integration but with a caveat that it must serve the overarching objective of poverty reduction.

20. ADB could also play an active role in bringing the emerging donors in the region in aligning themselves with the strategic directions and requirements for sustainable development.

21. In terms of selectivity and focus, the analysis and conclusion of the MTS II would be acceptable and ADB’s LTSF should build on MTS II in addition to the EPG report. In collaboration with other donors in the spirit of Paris Declaration and harmonization of aid, it would be possible for ADB to focus its operation on the areas of its key expertise. In cases of exiting specific areas of assistance, however, there should be solid analysis and rationale for ADB’s conclusions. It would be important for ADB to remain a broad-based aid organization with different degrees of emphasis in its operation, maintaining sufficient number of staff capable of addressing cross-sectoral issues.

22. In closing, following points were listed as take aways for ADB in this consultation meeting:

- Overriding principle is that whatever ADB does it must add value.
- Poverty reduction should remain the primary objective of ADB. Inequality is an issue for the region, but ADB’s performance should be measured in terms of poverty reduction and not inequality. Inclusive growth is a means to an end, rather than an end in itself and from this viewpoint there are no conflict between inclusive growth and poverty reduction.
- On selectivity and effectiveness of institution ADB should stick with its core competencies. There should be synergies in ADF and OCR operations. MTS II remains a good starting point for selectivity and focus. “Climate change” was added as an area of importance for ADB. In the financial sector, creating an enabling environment may be where ADB would add most value.
- Partnership is important and commitment to Paris Declaration should not be forgotten in all its operations. ADB can also play a role in providing a platform for knowledge sharing, and sharing the requirements of sustainable development with the emerging donors would be a good example of such endeavor.

- ADB's efforts toward building its knowledge base should not attempt to duplicate the work of others, such as the World Bank, IMF and the academia. But ADB should have a knowledge base of its own to be effective in its operations and accordingly its knowledge building should stay within the mandate of its operational focus.
- Institutional effectiveness remains an issue and flexibility and responsiveness of ADB's operations must be improved. There is keen interest to ensure good corporate performance management, in particular the implementation of its human resource strategy.

List of Participants

Country	Participant	Remarks
Australia	Ms. Julia Newton-Howes Assistant Director General, Development Partners Branch, AusAID	
Australia	Ms. Jan Harris General Manager, International Finance Division, Australian Treasury	
Australia	Mr. Bruce Paine Minister-Counsellor (Economic) Australian Embassy, Tokyo	
Australia	Ms. Vanessa Lapthorne Development Banks Unit, International Finance Division Australian Treasury	
Australia	Mr. Phil Bowen Executive Director, ADB	
Hong Kong, China	Ms. Gillian Hui Senior Manager, External Department Hong Kong Monetary Authority	
Japan	Mr. Tatsuo Yamasaki Deputy Director-General, International Bureau Ministry of Finance, Japan	
Japan	Mr. Toshinori Doi Director of the Development Institutions Division, International Bureau Ministry of Finance, Japan	
Japan	Mr. Reiichiro Takahashi Deputy Director-General, International Cooperation Bureau Ministry of Foreign Affairs	
Japan	Mr. Tooru Maeda Director of First Country Assistance Division, International Cooperation Bureau, Ministry of Foreign Affairs	

Country	Participant	Remarks
Japan	Mr. Shohei Hara Advisor, Development Assistance, Strategy Department, JBIC	
Japan	Mr. Kazuaki Obe Director General of Planning and Coordination Department, JBIC	
Japan	Ms. Yuko Ishizawa Chief, Global Development Partnership Team, Planning Group, Planning and Coordination Department, JBIC	
Korea, Republic of	Mr. Byung-Doo Sohn Director, International Financial Institutions Division Ministry of Finance and Economy	
Korea, Republic of	Mr. Jong Ku Choi Deputy Director General, International Financial Ministry of Finance and Economy	
Korea, Republic of	Mr. Hyun-Woo Shim Deputy Director, International Financial Institutions Division Ministry of Finance and Economy	
Korea, Republic of	Mr. Chang Huh Director's Advisor, ADB	
New Zealand	Mr. C. J. Stan Vandersyp Programme Manager (International Financial Institutions), NZAID Ministry of Foreign Affairs & Trade	
Taipei,China	Mr. Yen-Dar Den (Jeffrey) Section Chief, Department of Foreign Exchange The Central Bank of China, Taipei	