

**LTSF Review  
Consultations with NGOs and the Private Sector  
Washington D.C.  
6 September 2007**

**Summary of Discussions**

**A. Introduction**

1. A consultation meeting on the review of ADB's Long-term Strategic Framework with US NGO and the private sector representatives was held on 6 September 2007 in Washington D.C. (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. Increasing political instability and conflict is not reflected in the risks and challenges identified as facing the region. Yet this has important implications for development in the Asia and the Pacific, and for ADB's operations.
  - ii. Improving governance was raised as a core issue, essential for inclusive long-term growth and elimination of poverty. It has fundamental importance to a well-functioning and growing economy that is based on transparent and accountable rule of law.
  - iii. Climate change should be recognized explicitly as an important global challenge facing the Asia and the Pacific region, with multidimensional impact on DMC development and ADB's operations—e.g. economic, social, and physical.

### 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. There was support expressed for a perceived shift by ADB from a "one size fits all" to a more differentiated approach that reflects the diverse conditions and needs of the countries in the Asia and the Pacific region
- ii. It was noted by some participants that it may be difficult for consensus to emerge on ADB strategy and operations from the different stakeholders involved, including DMC governments, shareholders, private sector, and civil society.
- iii. There was a concern by some participants whether the EPG report implies a shift away from a focus on poor countries to middle-income countries (MICs). What are the implications of an increased focus on MICs in the EPG report for ADB's strategy and operations with respect to the poor countries in the region? The challenge to ADB is to balance a continuing focus on poverty reduction, particularly in lagging economies, with operations in the MICs -- who are potentially important clients to ADB as a financial institution.
- iv. It is important to be able to measure ADB operations' impact—particularly the contribution to poverty reduction -- for effectively focusing strategy and operational priorities. That is, ADB needs to be able to identify what are successful projects with respect to poverty reduction; and more generally, the development impact and effectiveness of different types of projects. Independent evaluation has an important role to play in this process, and it also reinforces institutional accountability to the public.
- v. The MDG's should be used as key objectives and indicators to measure ADB's development impact and effectiveness. However, it was recognized that other indicators are likely to be also needed to reflect ADB's strategic focus and operational priorities, as the MDGs may be of limited usefulness in some cases as measures of performance to guide ADB's actual operations.

6. With respect to the EPG's recommendation for a *three-pronged strategy* focused on inclusive growth, environmentally sustainable growth, and regional cooperation and integration, participants drew attention to the following:

- i. Poverty reduction should remain the fundamental focus of ADB strategy and operations, given that Asia continues to have most of the world's poor. A focus on reducing inequalities may be added, reflecting the concept of inclusive growth. At the same time, the definition of poverty should be more general than simply income based (e.g. less than \$1/day), reflecting the many different dimensions of poverty, e.g. social, environmental, gender, governance, etc.

- ii. Some participants noted that the concept of *inclusive growth* is not clear as a basis of ADB's strategy and operations. In this context, it was suggested that a mission statement should be clear and simple in communicating the basic role of ADB to different constituencies, e.g. for public support, and in this poverty reduction is more effective. There was also concern raised as to whether a focus on inclusive growth implies moving away from a focus on poverty. At the same time, there was also strong support expressed by some participants for a focus on inclusive growth as the basis for ADB strategy and operations. It was seen as a potentially more meaningful, though more complex concept to guide operations than poverty reduction. It stresses the importance of growth in development; and also makes clear that it is growth that explicitly includes lagging groups and countries. Therefore inclusive growth may provide a more effective basis for addressing poverty and inequality, but not necessarily effective for communication with the general public.
- iii. *Environmental sustainability* should be an important strategic focus for ADB. However, the link between poverty reduction and environmental sustainability is not sufficiently well articulated. Environment is fundamentally about people; and the most marginal groups are the ones most dependent on resources which are at risk from environmental damage. Therefore environmental sustainability properly defined is a critical element of poverty reduction. This focus also allows ADB to differentiate its role and operations from other sources of development financing such as capital markets and key bilateral donors in the region.
- iv. Where does *human rights* fit into ADB's strategic focus and operational priorities? Lack of basic human rights is a key factor in poverty. Therefore a focus on broad empowerment of people, particularly the poor, has to be an important part of any strategy aimed at poverty reduction.

7. *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. Participants felt that it is the DMCs who should drive the process of selectivity and focus in strategy and operations. ADB should avoid accommodating primarily what the shareholders want as that may result in too many demands on the institution, i.e. a "Christmas tree approach".
- ii. At the same time, some participants were skeptical of the DMCs as the primary source of focus and selectivity in ADB's operations as they will want ADB to be active in many different areas. Therefore it was suggested that ADB should develop its own coherent focus for its strategy and operations—based in part on the consultations—then discuss it with the DMCs and shareholders.

8. *Operational Priorities*: There is general support for the six operational priorities identified by the EPG.<sup>1</sup> 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. There was a general observation that ADB needs to link its vision, strategy, and operational priorities more effectively and more clearly.
- ii. *Infrastructure* should remain a core priority of ADB. However, it should, be approached within a wider development context, as ADB is increasingly doing. In general, ADB's approach to infrastructure should have a more broadly development objective; recognize its multidimensional impact (e.g. environment); and address contextual issues such as supportive policy reforms and institutional capacity. A key contribution of ADB in infrastructure is not so much hardware—though this is important—but strengthening the larger context for improving the effectiveness of investment in physical infrastructure. The information that ADB will provide can help governments strengthen their capacity to make good decisions about investment in physical infrastructure. ADB can also communicate and use more effectively its accumulated experience in addressing infrastructure needs in the region in this more general way.
- iii. Within the general context of *financial sector development* it was noted that only a small amount of Asia's vast reserves are invested in the region. ADB has played little role to date in channeling the supply of regional savings to the need and demand for investment in the region.
- iv. *Environment* is an important operational priority and potential comparative advantage for ADB. However, ADB needs to be more specific about what “environment” means, particularly in the context of poverty reduction. It was also noted that in ADB's regional cooperation activities, for example in the GMS, the environmental dimension of cooperation has been lagging as compared with other areas such as infrastructure. Some participants stressed that addressing *climate change* is of particular importance as it has multidimensional impacts on DMC development, e.g. economic, social, and physical. Climate change will have impacts on the infrastructure itself, and should be included in the decision process about what kind of infrastructure to invest in. It should be made an explicit operational priority, or at least highlighted within the environment focus, and incorporated into all ADB operations at the project level.
- v. An important role of ADB in the context of (but not only) *regional cooperation* is the convening power of the institution: bringing together different countries and different stakeholders to address common or shared issues.

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

- vi. *Knowledge management* should be a key priority of ADB operations: countries need and want advice. Given the very limited role of MDB/ADB financing in the context of overall financial flows to Asia, knowledge related to operations, e.g. in infrastructure, should be a key role and comparative advantage of ADB.
- vii. *Education and health* are important areas for ADB operations, particularly in the context of inclusive growth aimed at reducing inequalities. Furthermore, OED assessments indicate that ADB has been effective in these sectors, e.g. education. With respect to health, it was noted that ADB should be careful in using global funds aimed at particular health problems, e.g. HIV/AIDs, as these require an effective “health-related infrastructure” (e.g. institutional, physical) to be in place.
- viii. Participants stressed that *governance* in the public and private sectors, including addressing problems of corruption, must be a key priority of ADB. It is a fundamental requirement for the effectiveness of all ADB operations. Attention was drawn to good governance in procurement — of particular concern to the business community, the source of goods and services to governments, given the increasing emphasis on the role of the private sector in development. However, it was noted that feasible standards of good governance can differ in different DMC contexts; and that the interest of many Asian governments in good governance has declined since the Asian Crisis. It was suggested therefore that pushing general standards of good governance is likely to be difficult, particularly given the limited role of ADB in financing Asian development. It may be more effective to ensure good governance standards in ADB’s operations, e.g. requiring public audits of SOEs receiving ADB funds; procurement standards related to ADB projects. In this way ADB’s operations could become “demonstration projects” and the basis for building wider standards of good governance in DMCs.

#### **D. Role of ADB and Operational Strengths and Weaknesses**

9. It is important to keep in perspective that MDB’s as a group are a very small source of the overall financial flows to DMCs in Asia. Therefore the leverage of ADB based on financing alone is likely to be limited.

10. Given constraints on ADB’s development financing role in the region, a key contribution is that of a “neutral party”—independent source of knowledge, as well as a broker or convenor. ADB should play a central role bringing together different stakeholders in the development process—government, civil society, private sector. Therefore ADB should put more emphasis on and strengthen its capabilities to play this role at both regional (cross-border) and country level. In this context, it was suggested that ADB partner with large corporations that are playing an increasingly important role in social and environmental issues — including incorporating these into their strategies and operations (e.g. corporate social responsibility). In this context an important role of ADB is to help broker private sector/civil society linkages for development.

11. At the same time, it was noted that although partnerships are important to ADB's operations, they should be approached with care. It is important to be clear about both the benefits and the costs of partnerships, since once initiated, they are difficult to dissolve.
12. Participants noted that it is important to have a degree of coherence among different institutions involved in supporting development in Asia, e.g. MDBs/IFIs.
13. Participants suggested that ADB look at its operations in a more systemic, integrated, and cumulative way. The institution should have a clearer appreciation of the interrelationship among, and the cumulative impact of individual projects, including in the context of regional cooperation programs such as the GMS.
14. An important challenge to the basic role of ADB is differences in perspective between donors and DMCs. It is the interests of the DMCs not of the donors that should fundamentally drive ADB strategy and operations.
15. At the same time, some participants suggested that country ownership should be approached with care. ADB should not simply do whatever DMC governments want—given that some governments may have significant shortcomings in terms of good governance and corruption. This also suggests that ADB needs to provide sound policy advice and support capacity building to strengthen governments in the region. In addition, in guiding its operations, ADB needs to hear not only from governments, but also from effected groups in DMCs—the real stakeholders in the development process.
16. Participants stressed that what are considered “safeguards” in ADB operations, e.g. environmental and social impacts, in fact involve internalizing (e.g. negative) externalities of projects in the interest of the DMCs. This is a key role and unique contribution of ADB —its value added to the development of the DMCs, for example as compared with private financing or selected bilateral donors. Therefore effective safeguards are an important benefit of ADB's operations to the DMCs, and not a “transaction cost” of the project preparation process.
17. Participants stressed the importance of considering within the framework of the LTSP process *how* ADB will deliver its new strategy, particularly in light of the long list of challenges identified by the EPG. ADB needs to consider how it will adjust its organization to deliver effectively its selected strategy and operational priorities.