

**LTSF Review**  
**Southeast Asia Country Consultations**  
**Bangkok, Thailand**  
**27 August 2007**

**Summary of Discussions**

**A. Introduction**

1. A consultation meeting on the review of ADB's Long-term Strategic Framework with Southeast Asian developing member countries (DMCs) was held on 27 August 2007 in Bangkok, Thailand. (List of participants attached).
2. The consultations focused on three issues: (i) risks and challenges of the Asia and 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 to Southeast Asia; 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 unique development challenges of the Southeast Asia region and their requirements for ADB's assistance. The discussion is summarized below.

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

4. DMC officials generally endorsed EPG's diagnosis of the risks and key challenges of the Asia and Pacific region. They also drew attention to the following issues and additional challenges:
  - i. Given the uneven growth of the Asia and Pacific region, there is a risk of increasing marginalization of the low income or lagging countries of the region.
  - ii. External factors are an important potential source of risk to development in the region, for example as reflected in the regional impact of the US sub-prime problem, and the implications of continued dependence on external markets.
  - iii. Accelerating urbanization presents complex and varied challenges in the region.
  - iv. Sustained rapid growth of many of the countries of the region presents increasing challenges to traditional macro-economic management, e.g. inflation, public debt, exchange rates, and public resource management.

- v. The changing demographics of the region also present challenges, for example for countries faced with aging populations associated demands on resources such as pensions, and more broadly the challenges of social security (in a broader development context).

### **C. Strategic Focus and Operational Priorities**

5. *Three-pronged strategy*: DMCs generally support the EPG’s recommendation for a three-pronged focus on inclusive growth, environmentally sustainable growth, and regional cooperation and integration. They also drew attention to the following issues:

- i. While a strategy is by its very nature forward looking, it is important that ADB not be guided solely by an “idealized vision” of the future at the risk of not sufficiently addressing the very real and continuing challenges of the present. Change in ADB strategy and organization should be gradual and responsive to the on-going and differentiated challenges of the countries of the region, particularly with respect to the needs of the low-income countries.
- ii. In particular, the Asia and Pacific region is faced with the continuing central challenge of poverty and associated requirements, although its particular form differs among countries. Poverty reduction should therefore continue to be at the core of ADB’s strategy, vision and mission. This is especially important for the lagging economies of the region.
- iii. In this context, the concept of inclusive growth needs further clarification, including its relationship to poverty reduction—both at the strategic and operational levels. Its application is likely to differ among the diverse countries of the region. For some the key challenge remains poverty reduction, for others it is one of rising inequalities, and for still others it is both poverty and inequality.
- iv. The concept of poverty is complex, going beyond a minimum income-based definition; it is also changing in nature as the countries of the region evolve. For example, poverty fundamentally has to do with access to key goods and services. If economic growth provides increased access for the poor, then it constitutes “inclusive growth” as an effective approach to poverty reduction.

6. *Selectivity and Focus*: DMCs have a mixed view on selectivity and focus. While recognizing ADB’s resource and organizational constraints, there is reluctance for ADB to be too selective and focused in strategy and operations. The following are key issues:

- i. The Asia and Pacific region is made up of widely differing countries, for example in terms of level of development, needs, scale. It is not clear on what basis ADB would assess the general needs of the region’s widely differing countries as the basis for selectivity and focus.

- ii. There is no discussion of the MDGs and their role. Yet they provide an important basis for operational focus, as well as for cooperation with various stakeholders.
- iii. Fundamentally, ADB needs to be country-specific in terms of where to put the emphasis in its operations. It is the countries that should determine the focus of ADB's operations. Therefore to be relevant, ADB needs to consult closely on country-level priorities and needs, and to retain or have access to internal or external capacity and resources to address a wide range of issues.

7. *Operational Priorities*: There is a general support for the six operational priorities identified by the EPG.<sup>1</sup> However, questions were raised about ADB's capability to address some of the operational priorities, while additional potential priorities were also identified for attention. The following are the key issues raised:

- i. At the core of ADB's activities should be a clear understanding of specific country needs and country context. Comprehensive *country analysis* therefore has to drive the effective formulation and implementation of operational priorities.
- ii. There was a general endorsement of *infrastructure* as a priority. This is seen as a traditional strength of ADB and a continuing core need of the region, at both the national and regional (cross-border) level.
- iii. There was general agreement on *financial sector development* as a priority, and one where ADB should increase its role. However, ADB may have to strengthen its capacity in this sector, particularly in terms of potentially more complex challenges and ADB's associated role in middle-income countries.
- iv. There was a general agreement on *regional cooperation and integration* as an operational priority. However, it was suggested that ADB should place more emphasis on supporting lagging economies to ensure that they get sufficient tangible benefits from regional cooperation, particularly in more sophisticated areas such as financial integration. It was also noted that labour mobility and migration is an important part of regional integration requiring attention. A potential focus on export or trade finance was identified both in the context of regional cooperation and integration, and as a more general need.
- v. In the general area of *knowledge management* it was noted that ADB could play a with respect to environment and regional cooperation.
- vi. While recognizing the importance of *technology development and innovation*, there were questions raised about what role ADB could play in this general area, and whether it has or could develop the needed capacity to play a meaningful role.

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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.

- vii. The importance of *public-private partnership* was emphasized. It was noted that neither government nor the private sector can “drive development” on its own: it requires public-private cooperation broadly defined. A priority in this context is improving the environment for private sector participation. The importance of helping countries tap capital markets was also noted.
- viii. Attention was drawn to the fundamental and general importance of *capacity building* for government as a priority.
- ix. In this context, the importance of *local government* support was emphasized.
- x. Continuing importance of *good governance* as an operational priority was noted.
- xi. The importance of the *education* sector was identified, particularly in the context of a strategy focused on inclusive growth.
- xii. There was a general support for the *agriculture* sector as a priority, given the importance of this sector to the countries of the region and its key link to poverty reduction. It was suggested that the agriculture sector should be approached with a more business-related emphasis that includes within an integrated framework areas such as infrastructure, technology, financing, marketing.
- xiii. It was suggested that ADB play a *communications support* role helping governments communicate expected benefits of projects to diverse stakeholders. This is important as public opposition arising from insufficient information and knowledge often stops good projects after significant up-front investment.

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

8. ADB is seen as an MDB/IFI with “regional sensitivity” understanding needs in the Asia and Pacific region, and having the capacity to adapt to local conditions. This is an important factor in its generally effective role. ADB was urged to continue to retain this aspect of its organizational culture.

9. It is difficult to isolate ADB’s operational strengths, since ADB-financed projects and programs are developed and implemented jointly with the governments and implementing agencies in the DMCs. Successful project and program implementation, and corresponding perceptions of ADB’s strengths, is then conditioned to a large extent by local capacity. This also highlights the importance of capacity building as a priority.

10. In this context, ADB’s strengths and weaknesses should be seen from a dynamic perspective as a guide to future operations, particularly as related to country capacity. As DMCs develop capacity in traditional areas of ADB support such as infrastructure, ADB can increasingly rely on country capabilities in these areas. This creates “space” for ADB

to develop strengths in new areas such as the financial sector, including public-private partnership (PPP), where countries require increasingly greater, more complex support.

11. A key factor conditioning ADB's role and operations is an understanding of the specific needs and conditions of DMCs. ADB has to have significant analytic expertise to assess these needs and conditions as the basis for effective, client-driven services.

12. DMC officials identified the following additional issues with respect to ADB's role and instruments, noting strengths, weaknesses and gaps:

- i. The financing available from IFIs in general, and ADB in particular, is far less than the development financing needs of the DMCs. Therefore ADB has an important role to play in mobilizing and coordinating development financing, including from the private sector, and particularly for lagging countries.
- ii. It was noted that it is expensive to deal with ADB, in part because the cost of ADB financing is relatively high. However, a key factor stressed is that transaction costs are very high meeting ADB's various procedures and safeguard conditions, particularly for poorer countries. ADB should assess such constraints on the use of its products in order to better adapt them to country conditions.
- iii. It was suggested that ADB expand access to concessional (ADF) financing for non-ADF countries for certain types of projects, e.g. social sector development.
- iv. ADB's private sector instruments need to become generally better known by its potential clients; and more effective in mobilizing private financing.
- v. There should be a greater use of policy-based lending instruments, with increasing TA support to strengthen country capacity to implement policy reforms.
- vi. More generally, ADB has a very important instrument in its TAs -- for analytic work, project preparation, and capacity development. However, there should be increased flexibility and country ownership in managing TAs. For example, far too much of a TA budget goes to administrative costs and to unilaterally selected international consultants whose understanding and contribution within the local country context is limited. More TA funds should be used to support capacity building for policy reform; and this should be implemented in a flexible manner reflecting the uncertain and changing conditions that define policy reform.
- vii. Country ownership should be strengthened for both lending and non-lending instruments, including through increased country-level management of projects.
- viii. Strengthening country ownership also requires ADB to work with DMCs on how to implement new modalities and instruments, for example those supporting public-private partnerships.

- ix. An important organizational constraint on the effectiveness of ADB is the frequent rotation of ADB staff. This raises the transaction costs and constrains the effectiveness of project/program development and implementation,