

**LTSF Review**  
**Southeast Asia Private Sector Consultations**  
**Bangkok, Thailand**  
**28 August 2007**

**Summary of Discussions**

**A. Introduction**

1. A consultation meeting on the review of ADB's Long-term Strategic Framework with private sector representatives from Southeast Asian developing member countries (DMCs) was held on 28 August 2007 in Bangkok, Thailand. (Participant list 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) ADB's role in the region, and its vision and mission to 2020; and (iii) strategic options for ADB in addressing the risks and challenges and the relevance of the EPG recommendations on operational priorities to Southeast Asia.
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. Participants generally endorsed EPG's diagnosis of risks and key challenges of the Asia and Pacific region, underlining the continuing importance of poverty. They also drew attention to the following issues and challenges:
  - i. A key region-wide challenge is corruption — more generally, bad governance broadly defined -- in both the public and private sectors. Rapid growth and large projects, including in partnership with the private sector, expand the possibilities for corruption and rent seeking. Many of the regional problems identified are linked to the corruption or bad governance in some form, e.g. environmental degradation, rising disparities, continuing poverty.
  - ii. The issues identified are particularly challenging to lower income countries who have more limited resources and capabilities to address them. In this context, the challenge of rising disparities generally involves both uneven domestic development, and disparities with respect to other countries in the region.
  - iii. The emergence of China and India holds both opportunities and risks for the countries of the region, and requires special attention.

### C. ADB's Role, Vision and Mission

5. *Role:* ADB's role in the region is changing, in part as a consequence of declining leverage with governments based solely on financing. ADB's products are becoming too expensive and complex (e.g. multiplicity of safeguard conditions that drive up transaction costs); and governments have other options for money (e.g. capital markets; new donors, in particular China). This also limits the role and leverage of ADB in supporting reforms in the DMCs. At the same time, these developments create new demands – and opportunities – for ADB to play a role in mobilizing financing from such additional sources, and in helping DMCs use such financing efficiently and effectively.

6. A potentially new role for ADB is that of a regional “investment development bank” that instead of helping to mobilize financing from outside the region, helps the Asia and Pacific region invest its own money for development of the region. ADB's role with respect to Asian bonds is an example of helping to create long-term financing within the region for development. At the same time, it was noted that ADB as a development finance institution is different from a private profit-oriented investment bank whose operations can lead to risky projects; it has to approach investment issues accordingly.

7. ADB also has a role to play in helping the region prepare for the adjustment necessary for the resolution of global (financial) imbalances. However, it is not clear that ADB has the necessary capabilities for managing some of the regional reserves in the role of a “fund manager”, as recommended by the EPG.

8. *Vision/mission:* There was limited discussion of ADB's vision and mission to 2020. However, there was a general consensus that *poverty reduction* should continue at the core of ADB's strategy and operations. The approach taken should involve a general focus on creating sustainable livelihoods for people, including through more private sector-related initiatives building on an understanding of particular product value chains, e.g. facilitating getting products to markets, and market development.

### D. Strategic Focus and Operational Priorities

9. Participants generally supported the EPG's recommendation for a three-pronged focus on inclusive growth, environmentally sustainable growth, and regional cooperation and integration, as well as the six operational priorities identified by the EPG.<sup>1</sup> They also drew attention to the following issues:

- i. *Infrastructure* should be a continuing priority of ADB, and involves a number of different roles, including: co-investor to mitigate private sector risks; financier where capital markets are not deep enough; helping governments create a

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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.

- strategic framework for individual projects, including assisting them in assessing private-sector initiated projects; and facilitating public-private sector partnerships, including helping governments ensure that such partnerships work in the public interest. A further role involves supporting governments, particularly in lagging economies, to understand and address the operations and maintenance (O&M) requirements of large-scale infrastructure projects.
- ii. The *financial sector*, including the strengthening of capital markets, should be a key focus of ADB operations, particularly in lagging economies, where lack of an efficient financial system is a major constraint on development in general, and private sector development in particular.
  - iii. *Regional cooperation and integration* should remain a key part of ADB's strategy and operations. Related key issues include the following:
    - Regional cooperation has led to many government-to-government agreements, but *limited participation by the private sector*, in part because of insufficient consultation with the private sector on such initiatives and their implications.
    - A key part of regional cooperation requiring more attention is facilitating the *free flow of people* in the region, e.g. through regional visa arrangements, region-wide travel facilitation.
    - ADB should play a greater and more effective role in linking different subregional cooperation initiatives, creating a “network of networks” for regional cooperation.
    - There are many Free Trade Agreements (FTA) under discussion or in the process of implementation in the region. ADB has a potentially important role to play in assessing the *collective regional implications of FTAs*.
    - ADB should focus more on the implications of regional cooperation and integration for *lagging economies*, including both subregional cooperation arrangements and FTAs, to ensure that regional disparities do not widen and these economies do not fall further behind.
    - The emergence of *China and India* has enormous implications for the region, and requires explicit attention, e.g. how to ensure that this leads to opportunities and not greater risks, particularly for lagging economies.
  - iv. *Innovation and technology development* can be a key focus on ADB operations, including assisting in technology-related training, with particular emphasis on lagging economies.
  - v. Strengthening *civil society* should be an important priority, as a key means to build social capital essential for development. This would complement an emphasis on public-private sector cooperation in the region, strengthening the role of civil society as a third partner in the development process.
  - vi. Given the challenges of corruption, there should be a focus on *good governance* broadly defined, in both the public and private sectors.

vii. *Private sector development* should be an important strategic focus and operational priority for ADB. Related key issues include the following:

- Focusing on *small- and medium enterprise development (SMEs)*, including as linked to local community development, can play an important role in addressing both poverty and urban-rural disparities. Technical assistance can be an effective means to support the SMEs and micro-businesses, in particular, access to long-term sources of funds.
- Working with and strengthening *business associations* should be a key part of private sector development strategy and operations. These can play an important intermediary role in private sector development.
- *Public-private partnership (PPP)*, broadly defined, should be a key priority of ADB. However, care should be taken to ensure that successful PPP projects do not lead to greater inequalities.
- An important part of a private sector strategy is to *facilitate access to capital markets*, particularly for lagging economies.

10. In order to implement the proposed strategy and operational priorities, particularly with respect to inclusive growth, ADB needs to overcome a fragmented approach to development. It requires a “whole systems” perspective and an integrated approach by ADB to development issues, as well as a more effective use of its accumulated knowledge and experience in this context. ADB also has to play a greater and more effective role as catalyst and “network facilitator” for other key players – e.g. governments, private sector, and civil society – to work together.

11. The participants did not express any direct views on selectivity in ADB’s strategy and operations.