

## Summary

### Medium-Term Strategy II 2006–2008

The medium-term strategy II (MTS II) has been prepared to guide operations for 2006–2008. This is a transitional period during which the LTSF will be reviewed, and a new long-term strategic direction established to respond to emerging development challenges in the region. These will be reflected in MTS III, to be launched in 2009. As a strategy for this transitional period, MTS II combines continuity and change. Poverty reduction is its overarching goal, and it is developed around the three pillars of pro-poor sustainable economic growth, inclusive social development, and good governance as in the LTSF. Within the broad framework of the LTSF, which was also the framework of MTS I, and based on an assessment of recent important developments in the region, MTS II has adopted five strategic priorities to further strengthen the poverty reduction impact of ADB's operations: catalyzing investment, strengthening inclusiveness, promoting RCI, managing the environment, and improving governance and preventing corruption.

MTS II is a strategy document, laying out the broad directions in which ADB operations should evolve within the medium term. It is not an action plan. Nevertheless, it has also specified several adjustments in the operational model, specific measures that will facilitate implementation of its strategic priorities. These specifications are or will be elaborated in more specific policy and strategy papers recently completed or now under preparation or review.

Finally, some observable milestones must be reached by the end of 2008, which will serve as markers for tracking whether MTS II is on course.

At the strategic level, the five priorities entail that by the end of MTS II, the following should be observable compared to the present:

- i. a higher share of projects that improve the investment climate in DMCs and a significantly higher volume of private sector operations;
- ii. a visible shift in the profile of assistance programs in favor of operations that promote inclusiveness;
- iii. a rise in the volume of assistance provided for protecting the environment, particularly in the energy and urban infrastructure sectors;
- iv. an increase in the coverage and scale of RCI activities; and
- v. embedding of elements to strengthen governance and prevent corruption in CSPs.

These strategic adjustments in the assistance profile should be supported and complemented by other visible adjustments in the operational model:

- i. growth in the critical mass of expertise in the core operational sectors, together with evidence
- ii. of exit from group-III subsectors;
- iii. a more rational use of TA resources in line with MTS II priorities and CSPs;
- iv. a visible increase in the cofinancing and financing partnership operations;
- v. advance in the introduction of new products and processes that are successfully pilot-tested;
- vi. clear and sustained improvement in project implementation and portfolio performance; and
- vii. mainstreaming of results-based approaches, including results-based CSPs.

The strategic priorities and adjustments of the operational model proposed in MTS II will be incorporated in ADB's business plan, i.e., the Work Program and Budget Framework. This framework and the guideposts listed above will serve as milestones for Management to lead and monitor the implementation of MTS II.