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Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank 2008–2020

ABBREVIATIONS

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| ADB | – | Asian Development Bank |
| ADF | – | Asian Development Fund |
| DMC | – | developing member country |
| GDP | – | gross domestic product |
| LTSF I | – | long-term strategic framework for 2001–2015 |
| MDG | – | Millennium Development Goal |
| MIC | – | middle-income country |
| NGO | – | nongovernment organization |
| OCR | – | ordinary capital resources |
| PPP | – | purchasing power parity |
| RCI | – | regional cooperation and integration |
| SME | – | small and medium-sized enterprise |
| TA | – | technical assistance |

NOTE

In this report, “\$” refers to US dollars.

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EXECUTIVE SUMMARY

Rapid economic growth in the Asia and Pacific region and significant shifts in the development, aid, and financial landscape have generated a need—and an opportunity—for the Asian Development Bank (ADB) to set a new strategic course. The new long-term strategic framework for 2008–2020 (Strategy 2020) will serve as ADB’s corporate-wide planning document and give ADB a more relevant and innovative role in shaping the region’s future. Strategy 2020 replaces the long-term strategic framework for 2001–2015.

By 2020, the Asia and Pacific region could move to a higher level of economic development. As growth continues, however, it may become increasingly difficult to reach those who remain excluded from its benefits. Disparities could widen within and between ADB’s developing member countries (DMCs). This trend and the mounting environmental costs could begin to threaten sustainability of their development. Chapter II of this paper describes the transformation of the region and the challenges ahead.

Chapters III and IV discuss the new strategic directions that will enable ADB to address these challenges. Under Strategy 2020, ADB will transform itself to meet the challenges, while remaining dedicated to reducing poverty—its overarching goal since 1999. ADB’s corporate vision under Strategy 2020 will continue to be “An Asia and Pacific Free of Poverty”, and its mission will be to help its DMCs reduce poverty and improve living conditions and quality of life.

ADB will pursue its vision and mission by focusing on three complementary strategic agendas: inclusive growth, environmentally sustainable growth, and regional integration. To better mobilize resources—including the region’s savings and inbound capital flows—and to maximize returns on its unique regional experience and comparative strengths within the evolving aid architecture, ADB will focus on five drivers of change: (i) private sector development and private sector operations, (ii) good governance and capacity development, (iii) gender equity, (iv) knowledge solutions, and (v) partnerships.

ADB will also refocus its operations into five core specializations that best support its agenda, reflect DMCs’ needs and ADB’s comparative strengths, and complement efforts by development partners: (i) infrastructure; (ii) environment, including climate change; (iii) regional cooperation and integration; (iv) financial sector development; and (v) education. In other areas, ADB will continue operations only selectively in close partnership with other agencies.

Chapter V describes the operational and institutional goals under Strategy 2020, including ADB’s plan to: (i) have 80% of its operations in its new core operational areas by 2012; (ii) scale up private sector development and private sector operations in all operational areas, reaching 50% of annual operations by 2020; (iii) scale up support for environmentally sustainable development, including projects to reduce carbon dioxide emissions and to address climate change; and (iv) increase its public and private sector operations progressively at the regional and subregional levels to at least 30% of total activities by 2020.

Strategy 2020 will also require institutional change. It will reestablish coherence across ADB’s entire operational policy framework. Implementation of Strategy 2020 will necessitate changes in the skills mix of ADB’s human resources, requiring, in turn, best practices to recruit and to retain staff. ADB will also adapt its organizational structure to new and expanded

products and services, particularly in private sector operations, financial services, knowledge management, and environmental operations.

Under Strategy 2020, ADB's Management will monitor and report on its effectiveness using a new results framework with four key measures:

- (i) regional outcomes, by which the region's general development performance will be assessed through Millennium Development Goals (MDGs) and other indicators;
- (ii) contribution to country outcomes, through which ADB's role in its five core areas of specialization will be captured;
- (iii) operational effectiveness, which applies indicators used by most multilateral development banks to ADB's performance; and
- (iv) organizational effectiveness, to track performance in key areas.

Chapter VI discusses the investments required to address key development challenges ahead and the need for ADB to have adequate concessional and nonconcessional resources to support its role as a leading development finance partner in the region.

Through Strategy 2020, ADB will contribute to improvements in both regional and global welfare. Ending poverty in the Asia and Pacific region would be a historic achievement and is necessary for achieving the MDGs at the global level. Establishing market-based economies across the region would help harmonize growth among DMCs and benefit the global economy by expanding trade and investment. Modernizing the region's financial sector would enable DMCs to become more self-reliant for financing their development, and would contribute to global financial stability. Greater regional economic and policy coordination, as well as improved governance in fragile situations, would facilitate regional stability and enable a wider range of intra- and interregional engagement, both private and public. And significant progress on energy efficiency and other measures to address climate change across developing Asia and the Pacific would produce positive impacts whose effects would reach far beyond regional borders and the present generation.

I. INTRODUCTION

1. Change is at the heart of the Asian Development Bank (ADB) experience. However, seldom has ADB's readiness to address new challenges, accept new opportunities, and move in new directions been more relevant than in this first decade of a new century. The region's growth has greatly surpassed the expectations upon which the long-term strategic framework for 2001–2015 (LTSF I)¹ was based 7 years ago. The economic terrain has shifted, lessons have been learned, and aid and financial architecture rebuilt. With greater transformations almost certainly ahead, ADB needs a new strategy to guide the organization toward a new Asia in 2020. It must make decisions and prepare for the region's future and ADB's place in it.

2. LTSF I was based in part on apprehensions raised by the Asian financial crisis that began in 1997, when many who had risen above the absolute poverty line slipped back below it. It focused, rightly then, on the poorest of the poor. The region's economy not only rebounded, it grew at a breathtaking pace that lifted far more people above the \$1-a-day poverty line² than anyone had predicted. Today, nonetheless, many people have little or no access to the benefits of this economic expansion. Disparities in incomes and living standards within developing member countries (DMCs) have grown faster, wider, and more worrisome than LTSF I had anticipated. Economic growth is taxing the environment, hastening the depletion of the region's energy and natural resources, and feeding global climate change. These problems, individually and combined, imperil economic growth and could erode recent development gains and diminish those yet to come.

3. At the same time, new opportunities have been created that, if fully exploited, could help solve these problems. If supported and encouraged, for example, momentum toward regional cooperation and integration (RCI) could help sustain and accelerate economic development. The international capital markets—which some middle-income countries (MICs) are already tapping at favorable terms—could help finance development that benefits all. The region's large savings could also be put to more effective use in DMCs. The vibrancy of the private sector offers yet more opportunities.

4. The new long-term strategic framework for 2008–2020 (Strategy 2020) will take up these opportunities and open new paths for ADB to exercise its comparative strengths within the international aid architecture that has evolved since LTSF I. Strategy 2020 also fills a crucial corporate need. The proliferation of strategic documents within ADB—while each of value—has sometimes produced unintended consequences, including redundancy, overlap, and confusion regarding strategic hierarchy,³ constraining cohesive planning and implementation. ADB needs a paramount strategic document that lays out clear and consistent strategic directions and provides the framework for the planning and financing of its operations, organization, and business processes.

¹ ADB. 2001. *Moving the Poverty Reduction Agenda Forward: The Long-Term Strategic Framework of the Asian Development Bank (2001–2015)*. Manila.

² Poverty measures based on an international poverty line attempt to hold the real value of the poverty line comparable across countries and constant over time. The \$1-a-day standard, measured in 1985 prices and adjusted to local currency using purchasing power parities (PPPs), was chosen for the World Bank's *World Development Report 1990: Poverty*, because it is typical of the poverty lines in low-income countries. Early editions of World Development Indicators used PPPs from the Penn World Tables. Recent editions use 1993 consumption PPP estimates produced by the World Bank.

³ ADB. 2000. *Special Evaluation Study of the Long-Term Strategic Framework: Lessons from Implementation (2001–2006)*. Manila.

5. The decisions involved in the creation of Strategy 2020 have come after substantive deliberations. A panel of eminent persons was convened in June 2006 to assess the region's future and how it will affect ADB's role to 2020. The panel's report,⁴ submitted to the President in March 2007, played a central part in all subsequent discussions, and was addressed by the Board of Governors at the 40th Annual Meeting in May 2007. Broad consultations were conducted with the Board of Directors, Management and staff, stakeholders, and DMC representatives, as well as with the private sector and civil society. The recommendations in Strategy 2020 have benefited from a wide array of studies, analyses, evaluations, and research, which suggested that ADB could serve the region better and have greater impact only through progressive change.

II. A CHANGING ASIA AND PACIFIC REGION

A. Transformation of the Region and the Aid Architecture

6. The region's economy has grown at a record pace over the past few decades. In the 1980s and 1990s, real per capita gross domestic product (GDP) rose more than 6% annually in East Asia and 3% annually in South Asia, while other developing regions in the world struggled to increase per capita income at all.⁵ The region's GDP growth has accelerated again since the Asian financial crisis; from 1999 to 2006, it averaged 6% per year. Asia's share of global exports has soared from 16% in the 1980s to 27% today. It has the largest reserves and the highest savings rate in the world. With such sustained economic progress across many parts of Asia, ADB's DMCs represent the developing world's best hope to achieve the Millennium Development Goals (MDGs).⁶

7. Rapid growth has produced fundamental changes in the region since ADB adopted LTSF I. This new regional reality includes: rising incomes with a resulting decline in absolute poverty; high, sustained inflows of capital; the coexistence, in a once capital-deficient region, of high rates of savings and large unmet needs for public and private investment; burgeoning intraregional trade and investment; and improved technological skills and managerial expertise of the population. Cities and towns have swollen in population and area. The middle class has expanded tremendously,⁷ with increasing resources to save and to spend. By 2020, the region could account for one third of world trade. Its share of global GDP in nominal dollar terms could double to almost one quarter—or as much as 45% in terms of purchasing power parity (PPP). The region's savings could remain large, as could its foreign reserves. Perhaps 90% of its people could be living in countries that have achieved middle-income status, mostly in megacities and urban areas. While not yet conquered, absolute poverty could be reduced to as little as 2% of DMCs' total population.

8. This outlook holds great potential for ADB and its development partners to achieve shared objectives within the evolving aid architecture. With proper effort and support, the Paris

⁴ Eminent Persons Group. 2007. *Toward a New Asian Development Bank in a New Asia*. Manila: ADB.

⁵ World Bank. 2005. *Global Monitoring Report*. Washington, DC.

⁶ The MDGs are a set of eight time-bound and measurable goals that respond to the world's development challenges, mostly by 2015, using 1990 as a benchmark. The goals are to (i) eradicate extreme poverty and hunger; (ii) achieve universal primary education; (iii) promote gender equality and empower women; (iv) reduce child mortality; (v) improve maternal health; (vi) combat HIV/AIDS, malaria, and other diseases; (vii) ensure environmental sustainability; and (viii) create a global partnership for development. Indicators have been identified to measure progress against each goal.

⁷ For example, the middle class in the People's Republic of China increased from 65.5 million in 2005 to 80.0 million in 2007.

Declaration on Aid Effectiveness⁸ has the potential to empower DMCs further to lead the development process. If proper strategies are devised and implemented, new sources and new mechanisms of external assistance could raise the per capita allocation of aid to the region. These circumstances provide opportunities for ADB to act more selectively where its competitive strengths are greatest. By becoming increasingly focused, ADB can strengthen the special advantages it offers to all of its shareholders as a partner in the region's development. It can bring its expertise to partnerships that leverage the assistance of other international institutions and bilateral donors and offer private sector interests a unique brand of support, allowing them to proceed with investments they might not otherwise make. With its extensive experience in and knowledge of the region, ADB can help reduce the costs of and increase the credibility of policy-relevant information and play an effective role in the region's development assistance within the international aid architecture. It can be a focal point for cooperation and coordination in the development of the Asia and Pacific region.

B. Challenges Ahead

9. In preparing Strategy 2020, ADB identified nine leading challenges facing the region. ADB examined all as potential opportunities to apply its skills, experience, influence, and resources, and considered those that might fall within the scope of Strategy 2020.

1. Poverty Remains the Central Challenge Facing the Region

10. More than 600 million people in the Asia and Pacific region, about double the population of the United States, still live in absolute poverty defined as less than \$1 a day. Almost half of the world's absolute poor live in South Asia alone (Appendix 1). One of every two individuals in the region—or 1.7 billion people—remains poor, as measured against the \$2-a-day benchmark (Appendix 1). This is one and a half times the combined populations of the developed nations of the Organisation for Economic Co-operation and Development. In DMCs eligible for funding from the Asian Development Fund (ADF),⁹ 100 million people—15% of the population—still live in absolute poverty, and almost 400 million people—almost 60% of the population—subsist on less than \$2 a day. In the People's Republic of China, 452 million people live under this \$2-a-day poverty marker, while in India the figure is 868 million. Most DMCs also face obstacles to achieving non-income MDG targets—issues inexorably intertwined with poverty. Child malnutrition is often high; almost half of the children in Afghanistan, Bangladesh, India, and Nepal are undernourished. In addition, 1.9 billion people in the region do not have access to basic sanitation. By 2020, the percentage of people living on less than \$1 a day in the region could fall to 2%, but this will require continued work to sustain the current high rates of GDP growth per capita, as well as additional effort to ensure that the poor are able to participate in, benefit from, and contribute to the growth process.¹⁰

⁸ Endorsed on 2 March 2005 by more than 100 countries and development organizations, including ADB and 19 DMCs.

⁹ ADF is a major instrument of concessional financing, which has supported equitable and sustainable development for the region since 1973. Funded by ADB's donor member countries, ADF offers loans at very low interest rates as well as grants to help reduce poverty in ADB's poorest borrowing countries.

¹⁰ United Nations Economic and Social Commission for Asia and the Pacific, ADB, and United Nations Development Programme, 2007. *Millennium Development Goals: Progress in Asia and the Pacific 2007*. Bangkok; Humphrey, J. 2006. Prospects and challenges for growth and poverty reduction in Asia. *Development Policy Review* 24.1.

2. Disparities in Well-Being Are Widening Within and Between DMCs

11. Rapid economic growth is not reaching all population groups in DMCs proportionately. In terms of economic benefits and access to social services, large numbers of people are being left behind or left out. In many DMCs, economic inequality has increased in the past 10 years when measured by the Gini coefficient. The incomes and expenditures of the people at the top of the scale have grown considerably faster than those of the poor.¹¹ Without steps to stem and reverse these disparities, the risks this trend poses—including social instability—will continue to grow.

12. Non-income inequality has also worsened. In India, for example, about 5% of children are severely underweight in the richest 20% of households, while the figure is as high as 28% in the poorest 20%.¹² The children of the poor are also the least likely to survive to age 5. Most DMCs, particularly the large ones, also display gaping disparities between their geographical regions. In the Philippines, the national poverty rate is about 15%, but regional rates range from 8% to a staggering 63%. In Indonesia, where the national child malnutrition rate is 26%, regional rates vary from 18% to 40%. Wide disparities can also be found between the levels of well-being in ADB's individual DMCs: Malaysia's per capita income, for example, is 18 times Nepal's. The harmonious economic development across the region that is envisaged in the Charter has yet to be realized.

3. Demographic Changes Will Have Profound Implications for Development

13. The region's population will not only expand—by an estimated 750 million between 2004 and 2025—it will be reshaped by demographic shifts that may have significant implications for government development policies and spending on basic services like education, health, and social security.¹³ Population growth will require the creation of 420 million jobs by 2030 in a region where at least 500 million of the existing labor force of 1.7 billion workers are already unemployed or underemployed. Productivity and earnings must also be enhanced if income and living standards are to rise.¹⁴ At the same time, the populations of some DMCs will age quickly, driving up their overall costs for medical services. Particularly in DMCs where life expectancy is rising, sound pension systems and flexible labor policies and practices to allow older workers to remain employed will also be necessary. Another pressing demographic challenge is the expansion of urban populations and the accompanying congestion, poverty, and pollution. Urban growth will test the planning and development capabilities of the region's public service delivery systems.

4. Rapid Economic Growth Is Putting Severe Strains on the Environment

14. Unless approaches to economic growth are altered to address pollution, the destruction of natural resources, and environmental degradation (including climate change), the region's prospects for strong, continuous economic progress are in jeopardy. Environmental damage and resource depletion from fast growth are already impeding the region's development and reducing the quality of life—with the poor most severely affected. The Asian energy sector's share of global carbon dioxide emissions have more than tripled from about 8% in 1980 to about

¹¹ The Gini coefficient in Asia increased from 46.82 in 1993 to 52.42 in 2003.

¹² ADB. 2007. *Key Indicators 2007*. Manila.

¹³ Hussain, Athar, Robert Cassen, and Tim Dyson. 2006. Demographic Transition in Asia and its Consequences. In *Asia 2015: Sustaining Growth and Ending Poverty*. (IDS Bulletin 37 [3]) Brighton: Institute of Development Studies.

¹⁴ Felipe, Jesus and Rana Hasan. 2006. *Labor Markets in Asia—Issues and Perspectives*. London: Palgrave Macmillan for ADB.

28% in 2005 (Appendix 1). The International Energy Agency forecasts that the region's energy demand will double by 2015.¹⁵ The region has the highest air pollution levels in the world, despite slight improvements in some cities. Without greater efforts to safeguard the environment, pressure will continue to build on the region's land, forests, water systems, wetlands, marine ecosystems, and other natural resources upon which many of the poor depend for their livelihoods. Urban centers will also suffer—the Organisation for Economic Co-operation and Development reports that eight of the 10 coastal cities at the greatest long-term risk from climate change and rising sea levels are in Asia.

5. An Infrastructure Deficit Is Constraining Market-Led Growth and Access to Social Services in Many Countries

15. Neglect and years of insufficient investment in infrastructure have led to overcrowded, unsanitary, unhealthy living conditions in the region's large cities. Poor infrastructure also increases energy consumption, which harms the environment. Although Asia has built many examples of superior infrastructure over the past few decades, they are often exceptions that accentuate economic disparities within a city and between urban and rural areas. Furthermore, the absence of well-planned rural, urban, and interconnected systems of infrastructure—as well as information and communication technology infrastructure—deprives many economies of private investment. In rural India, the lack of good infrastructure is undermining agricultural productivity, and infrastructure gaps in the Philippines have held back industrialization and job creation. These development bottlenecks were created by low levels of public sector revenue mobilization, misguided public spending priorities, weak institutions, regulatory failures, and underdeveloped financial systems that do not encourage the flow of long-term private capital into infrastructure projects.

6. More Regional Cooperation and Integration is Needed to Address DMCs' Challenges and Opportunities

16. RCI has vast potential for accelerating economic growth, reducing poverty and economic disparity, raising productivity and employment, and strengthening institutions. It can improve a poor country's possibilities for growth by expanding trade and joint investment with its neighbors, strengthening transport and information connections, and improving its information and communication technology. In South Asia, for example, the size and scattered nature of the region's hydropower and natural gas resources—and the different sizes of its national economies and associated energy demand levels and rates of growth—suggest immense potential for mutually beneficial integration and trade in energy and energy resources.¹⁶ RCI can narrow development gaps between DMCs. Building closer trade integration, intraregional supply chains, and stronger financial links with neighbors that are advancing more rapidly will allow smaller, slow-growth countries to speed their own expansion.

17. Progress in RCI has varied across subregions. Although intraregional trade makes up 55% of the region's total trade, up sharply from about 43% in the early 1990s, East Asia accounted for most of that increase. Asia also needs to pursue “open regionalism,” keeping trade and investment links open with the rest of the world. This will preserve what has been a major factor in its economic success and mitigate protectionism in other regions. RCI can be a

¹⁵ International Energy Agency. 2007. *World Energy Outlook*. Paris.

¹⁶ Jones, S. 2004. *Regional Integration Through Cross-Border Infrastructure*. Framework Paper for Oxford Policy Management. Oxford, United Kingdom (November).

key building block in developing regional markets for goods and services and ensure they remain unobstructed through close cooperation in policy formulation and regulatory design.

7. Asia's Financial Systems Are Not Intermediating the Region's Pool of Savings Efficiently to Meet Its Growing Needs

18. The region needs to redouble efforts to develop national and regional financial systems, including capital markets, with particular emphasis on expanding volume and outreach. DMCs must realign the institutional frameworks of their financial systems to the needs of the real sector. On one hand, this sector is increasingly globalized, requiring cross-border financial transactions. On the other hand, it is led by the private entities, which need risk capital, particularly for start-up companies and small and medium-sized enterprises (SMEs). The financial systems in most of the region's countries are still dominated by banks. The underdeveloped capital market limits investment for projects with long gestation periods, such as infrastructure. In addition, financial systems in many DMCs still require stronger financial risk management, credit standards, and internal control procedures. Large segments of the region's population still have limited or no access to formal financial services, especially in rural areas and the informal sector. If the reach of financial systems can be expanded into rural areas, the rural sector and its millions of poor will have more opportunities to take part in the region's growth.¹⁷

8. DMCs Need More Emphasis on Innovation, Technology Development, and Higher Education

19. Successful development not only requires closing the resource gap, but also bridging the technology and knowledge gap between the developed and developing world. To achieve the MDGs, DMCs must build up their science, technology, and innovation capacities. Their future competitiveness will be determined less by low wages for labor and more by the ability to produce and master technology and produce higher-value goods and services.¹⁸ DMCs will need to devise strategies for advancing their own technology and associated capabilities, including incentives for creating higher demand for modern technology.¹⁹ Innovation can occur only when domestic capacity for knowledge absorption is high—and this requires an educated labor force and quality academic institutions.²⁰ Education reduces poverty by enabling the poor to obtain more productive jobs, higher wages, and a better quality of life.

9. Weak Governance May Prevent Many DMCs from Exploiting Economic Opportunities

20. The complex challenges created by rapid economic growth have increased demands on public institutions' capacity to design and to implement better policies and strategies. The state must establish institutions and policies that maximize opportunities for growth and poverty reduction. The economic success of many DMCs will depend on this kind of institutional progress, along with a policy and regulatory environment that fosters trade, investment, and technology development. The key role of state institutions also often raises the related governance challenge of corruption, which many DMCs face to varying degrees. Public sector institutions, including those in the financial system, must adjust and reform to meet the demands

¹⁷ Rahman, Hossain Zillur and Mark Robinson. Governance and State Effectiveness in Asia. In *Asia 2015: Sustaining Growth and Ending Poverty*. (IDS Bulletin. 37 [3]).

¹⁸ Eminent Persons Group. 2007. *Toward a New Asian Development Bank in a New Asia*. Manila: ADB.

¹⁹ ADB. 2007. *ERD Policy Brief*. No. 49. Manila.

²⁰ World Bank. 2007. *An East Asian Renaissance*. Washington, DC.

of dynamic, open, and market-driven economies, as well as citizens' calls for greater efficiency and transparency in managing public resources and public service delivery. Countries must do more to protect intellectual property rights and to uphold the rule of law. Fragile countries and situations would benefit greatly from good governance and higher levels of transparency—improvements that could jump-start their economic development.

21. Achieving measurable and sustainable progress on these challenges would represent important contributions to both regional and to global welfare. Ending absolute poverty in the Asia and Pacific region would be a historic achievement that only recently seemed insurmountable. Reinforcing vibrant and modern market-based economies across the region would benefit the global economy by significantly expanding trade and investment opportunities. Modernizing the region's financial sector would enable DMCs to become more self-reliant in financing long-term development and contribute to overall global financial stability. Greater regional economic integration and policy coordination as well as improved governance in fragile countries and situations would strengthen regional stability and raise the economic growth potential. Additionally, significant progress on energy efficiency and climate change across developing Asia and the Pacific would produce positive impacts far beyond regional borders and the present generation. Considering the region's size, population, and resources, overcoming its development challenges and realizing the benefits is a global public good.

22. Innovation, superior knowledge, new modalities of development assistance, financial resources, and experience will be required to address these challenges. In many DMCs, the nature and scale of these challenges exceed the existing capabilities and resources of governments and markets. This is especially true where cooperative action among countries is essential, and where access to long-term finance is crucial to address large social costs and benefits not captured by markets. It is also the case where conflict, weak governance, or weak capacity, make sound development management contingent on external assistance and cooperation with development partners. ADB must continue to help DMCs gain access to long-term funds at reasonable terms, manage risks, take collective action, and deploy cutting-edge knowledge and technical services to complement financing. ADB must also support improved governance and gender equity, catalyzing private sector development and arranging partnerships with a broad range of institutions. To continue to be effective in meeting the emerging challenges of the region, however, ADB needs a clear vision, a sound strategy, and the appropriate financial and institutional capacity. The next two chapters set out the strategic direction for ADB under Strategy 2020.

III. VISION AND STRATEGIC AGENDA

23. ADB is committed to ending poverty in the region. Poverty reduction has been ADB's overarching goal since 1999 and an important feature of its planning and operations since its establishment. Ending poverty is ADB's—and the region's—most important piece of unfinished business. The extraordinary economic expansion of recent years has made the eradication of income poverty (i.e., those living on less than \$1 a day) a possibility by 2020. All of ADB's shareholders—borrowers and nonborrowers—and development partners agree that the elimination of poverty is a paramount development objective, a goal that underpins the central role of the region's DMCs in achieving the global MDGs. Therefore, ADB's corporate vision under Strategy 2020 will continue to be “An Asia and Pacific Region Free of Poverty” and its mission to help its DMCs reduce poverty and improve living conditions and quality of life.

24. Economic growth has been the driving force in reducing poverty in the region. However, it is now apparent that not only the *pace* of growth but the *pattern* of growth matters. Reducing

poverty requires that more people become economically productive citizens and share in a society's growing well-being. The ability to achieve and to sustain poverty reduction depends on economic growth alongside a well-managed natural environment. Further, the process of ending poverty in the region can be accelerated when neighboring economies work within larger and freer markets and when governments achieve common interests through common efforts. ADB can make substantive contributions toward this vision by focusing its support on three distinct but complementary development agendas of the region: inclusive economic growth, environmentally sustainable growth, and regional integration.

25. **Inclusive Economic Growth.** A development strategy anchored in inclusive growth will have two mutually reinforcing strategic focuses. First, high, sustainable growth will create and expand economic opportunities. Second, broader access to these opportunities will ensure that members of society can participate in and benefit from growth. Without proper attention and planning, it will become increasingly difficult for growth to reach the impoverished who remain excluded by circumstance, poor governance, and other market-resistant obstacles. The region must promote greater access to opportunities by expanding human capacities, especially for the disadvantaged, through investments in education, health, and basic social protections. It must also improve the poor's access to markets and basic productive assets by putting in place sound policies and institutions. Finally, social safety nets must be strengthened to prevent extreme deprivation. ADB's support for achieving inclusive growth in DMCs will include investment in infrastructure to achieve high sustainable economic progress, connect the poor to markets, and increase their access to basic productive assets. ADB will support investment in education and essential public services, such as water and sanitation, which particularly benefit the poor and women. These investments will provide the opportunity for all to improve their standards of living, thereby contributing to economic growth, poverty reduction, and the mitigation of extreme inequalities.

26. The majority of the poor in the region, including most of the absolute poor, are women. Women comprise the largest group among those excluded from the benefits of the region's economic expansion. ADB will continue to emphasize gender equality and the empowerment of women as fundamental elements in achieving inclusive growth. It will also work to increase investments aimed at providing women with better access to education and other economic resources, such as credit.

27. **Environmentally Sustainable Growth.** Asia's robust economic growth is contributing to the depletion of the region's natural resources, accelerating environmental degradation, both in urban and rural areas, and impacting climate change. Only growth that is environmentally sustainable can eliminate poverty, since many of the poor depend on natural resources for their livelihoods. To realize environmentally sustainable growth, ADB will support the use of environmentally friendly technologies, adoption of environmental safeguard measures, and establishment of institutional capacities to strengthen their enforcement. Through regional cooperation, ADB will promote effective approaches and solutions and facilitate transfer of knowledge and technologies on environmental management. In addition, ADB will further strengthen regional initiatives for mitigating and adapting to climate change due to Asia's rising contribution to carbon dioxide emissions.

28. **Regional Integration.** Paralleling its support for national programs that reduce poverty and raise living standards, ADB will step up implementation of its RCI strategy. This strategic agenda will exploit the great promise that RCI activities present for accelerating economic growth, raising productivity and employment, reducing economic disparities, and achieving closer policy coordination and collaboration in support of regional and global public goods,

including work to combat climate change and HIV/AIDS. ADB will assist DMCs to realize growth through integration and closer links with their neighbors. Regional cooperation also often addresses shared resources (e.g., the Mekong River) on which the poor depend for their livelihoods. Larger regional markets for goods, services, and capital will raise the efficiency of resource use and enhance the region's global competitiveness. Closer regional coordination will elevate the overall quality of policy and reinforce the abilities of countries and regions to respond more effectively to sudden or unexpected changes in economic circumstances. This scaled-up effort comes at an opportune time as leaders in the region are increasingly committed to greater economic integration, open regionalism, and cooperation on a range of transboundary issues.

29. Under Strategy 2020, ADB is committed to achieving sustained and equitable development, improving the quality of life, and eradicating poverty with the aim of contributing most effectively to the harmonious growth of the region in keeping with the Charter. A balanced integration of these elements should be reflected in ADB's overall portfolio, as well as in individual country partnership and regional cooperation strategies. ADB believes that it can best work to eliminate poverty only when its strategic agenda coincides with DMCs' expressed needs. Country responsiveness will be vital under Strategy 2020, as will recognizing and respecting efforts of development partners within the region's larger aid agenda. Therefore, ADB assistance programs and projects will conform to what Strategy 2020 has determined will be the business of ADB in the 12 years ahead—understanding where it can be most relevant and where it can have the most impact.

IV. A PARTNER AND AGENT FOR CHANGE

A. Drivers of Change

30. To pursue its vision and new strategic agenda—and to make the greatest impact on the region's challenges—ADB will place emphasis on five drivers of change: (i) private sector development and private sector operations, (ii) good governance and capacity development, (iii) gender equity, (iv) knowledge solutions, and (v) partnerships. Each driver provides an opportunity for ADB to act more as an agent of change by stimulating growth and synergizing broader development assistance, and to be a more active and better development partner.

1. Private Sector Development and Private Sector Operations

31. ADB will expand its work with the private sector to generate greater economic growth in the Asia and Pacific region. ADB will assume greater—but thoroughly assessed—risks and act as a catalyst for investments that the private sector might not otherwise be willing to make. It will do more to help DMCs attract direct private sector investments that support inclusive growth and improve the environment. To spur market-led growth, ADB will invest in infrastructure and advise governments on the basics of a business-friendly environment, including reliable rules, regulations, and policies that do not disadvantage private sector enterprise. ADB's tools to catalyze change through greater private investments in DMCs will include direct financing, credit enhancements, risk mitigation guarantees, and innovative new financial instruments. These tools will create value by attracting private capital and deploying business management or technical expertise to specific sectors and transactions. ADB will promote public-private partnerships in all of its core operational areas, gaining experience first in MICs, and then expanding these efforts to all DMCs.

2. Good Governance and Capacity Development

32. ADB will increase support for good governance and the building of development capacities, because this will improve the cost-effective delivery of public goods and services and broaden inclusiveness. ADB will bring four elements of good governance (accountability, participation, predictability, and transparency) deeper into the mainstream of its operations and activities. It will regard accountability for economic performance, effectiveness of policy formulation and implementation, and the efficient use of public resources as essential to preserving financial resources for development purposes. ADB will work to make sure that the poor participate in meaningful ways in decision-making processes that affect the management of resources on which they depend for subsistence. To help regional integration fulfill its potential to catalyze growth, ADB will support the establishment of transparency and predictability in regulations and decisions on cross-border issues, trade and investment cooperation, regional financial integration, and regional public goods.

33. ADB will attempt to reduce the profound harm corruption inflicts on development, particularly on the poor. ADB's anticorruption efforts will be linked to broader support for governance and improvement in the quality and capacities of the public sector as a whole. It will continue to focus on strengthening initiatives and systems that emphasize prevention and utilize the international framework embodied in the United Nations Convention against Corruption. Under Strategy 2020, ADB considers improving governance, curtailing official corruption, and helping make public institutions and organizations more capable as highly effective ways to increase private sector investments throughout the region.

3. Gender Equity

34. As an agent of change, ADB will continue to promote and support gender equity by designing gender-inclusive projects and paying careful attention to gender issues across the full range of its operations. Research and experience over the last 10 years confirm the importance of gender equity as essential to poverty reduction, improved living standards, and sustainable economic growth.²¹ ADB will promote gender equity through operations that deliver specific gender outcomes, such as improved access for females to education and health services, clean water, better sanitation, and basic infrastructure. The empowerment of women promises enormous gains—economic and social, direct and indirect—that ADB will help its DMCs capture. ADB operations will be guided by its gender and development policy²² and gender and development plan of action.²³

4. Knowledge Solutions

35. Knowledge is a powerful catalyst for propelling development forward and enhancing its effects. ADB will play a bigger part in putting the potential of knowledge solutions to work in the Asia and Pacific region. ADB's unique abilities to contribute and apply development knowledge are rooted in its central position in identifying trends within and across the region, interdisciplinary and integrated assistance approach, and capacity to implement insight and knowledge via large, attractive financing. It will employ these advantages to support the more robust body of empirical knowledge needed to resolve current and emerging obstacles to development, utilizing its multidisciplinary staff. ADB's knowledge services will address its

²¹ ADB. 2006. *Implementation Review of the Policy on Gender and Development*. Manila.

²² ADB. 1998. *Gender and Development*. Manila.

²³ ADB. 2007. *Gender and Development Plan of Action (2008–2010)*. Manila.

clients' immediate knowledge needs, while determining and passing on best practices. ADB will support pilot projects from which it will distill and disseminate lessons. ADB will distribute knowledge in ways that have both an immediate impact and catalytic force—for example, the knowledge of how a DMC can approach public–private partnerships to provide social services and to achieve benefits for the poor.

36. ADB's ability to work closely and on a long-term basis with governments in the region gives it first-rate, country-specific insights. ADB's outlook, however, goes well beyond any individual country. Its efforts to build and to apply knowledge will also include cooperation and integration across countries and regions. Its knowledge will be continuously enriched through (i) internal learning from operational experience and communities of practice; and (ii) external learning from long-term strategic partnerships with other international finance institutions and world-class research institutions, including ADB's own regional knowledge hubs.

5. Partnerships

37. To address the risks and challenges facing the region, and to meet the many different requirements for achieving inclusive growth, environmentally sustainable growth, and regional integration, ADB will engage in partnerships with a more diverse group of institutions. Partnerships with international development agencies, multilateral and bilateral institutions, the private sector, nongovernment organizations (NGOs), community-based organizations, and foundations will become central to planning, financing, and implementing ADB operations. It will make use of all its natural attributes as Asia and the Pacific's home development institution, including on-the-ground capabilities provided by more than 20 resident missions across the region. ADB has developed productive relationships with DMC governments, World Bank, International Monetary Fund, World Trade Organization, United Nations agencies, and other major multilateral and bilateral institutions. However, Strategy 2020 will expand the scope of ADB's partnership agenda beyond its current mainly official development finance partners to include endeavors with the private sector and private institutions. ADB will be open to a new range of future partnership activities that can deliver aid effectively, improve development results, and improve disaster and emergency assistance. Underpinning these partnerships are likely to be the promotion of new assistance modes, greater use of DMCs' technical and managerial skills, and closer collaboration with the private sector in project cofinancing and use of market-based investment instruments.

B. Developing Partner Countries

38. Under Strategy 2020, ADB's graduation policy²⁴ will allow ADB to view individual DMCs in terms of their progress on economic and development management performance, and make decisions on their eligibility for ADF and ordinary capital resources (OCR). Looking beyond those important factors, ADB will take a holistic view of DMCs' development challenges and capabilities, social and economic environments, institutions, and histories and tailor assistance and cooperation to individual countries along the following perspectives:

39. **Graduated DMCs.** The expertise graduated DMCs can bring to other DMCs is a valuable resource that ADB will leverage in its operations. The development of a stronger relationship between graduated DMCs and ADB under Strategy 2020 will include cooperation on policy dialogue and best-practice approaches to policy reforms in DMCs, direct financing of projects or cofinancing of ADB-assisted projects, and expanding the transfer of knowledge and

²⁴ ADB. 2007. *Review of the 1998 Graduation Policy of the Asian Development Bank*. Working Paper. Manila.

technology from graduated DMCs to borrowing DMCs in areas where the former have established a comparative strength.

40. **Middle-Income Countries.** The majority of Asia's poor live in MICs. In many cases, inequality has widened, affecting socioeconomic stability and further development gains. Although many MICs possess, or have easier access to, resources to address their development challenges, others have more limited access. MICs represent a strategic priority within ADB's vision of a region free of poverty, and ADB will not forego opportunities to help them reduce and eliminate poverty. Moreover, economic and social progress in MICs can be a source of growth for other nearby countries, particularly those with which they establish trade and investment relationships. The contribution of MICs to the provision of regional and global public goods—especially environmental goods—is often decisive and benefits everyone. ADB will support elements of an MIC's development agenda that stakeholders consider most crucial. For example, if an MIC has steadily improved the welfare of its population, ADB's assistance might focus on removing the remaining constraints. Conversely, if little or no progress is being made in an MIC, ADB might help address policy gaps or failures, structural inequalities, or a lack of specialized knowledge or technical and managerial expertise. In some cases, ADB might intervene through highly selective and time-bound support to improve policy, develop capacity, and/or secure investment in national and subregional infrastructure. In others, ADB might provide assistance through work at the subsovereign level.

41. **Low-Income Countries.** This category of DMC relies heavily on official development assistance in efforts toward development and poverty reduction. Given the diversity of these countries, however, approaches need to be differentiated. For some, the priority is to reinforce recent strong growth and to make it sustainable. For others, it is to assist with managing the sustainability and continuing economic benefit from their natural resources. For still others, it is to establish and begin the process of robust growth. Despite differences within this group, they face many similar challenges, such as improving the business climate and developing the private sector, making progress on governance and anticorruption, combating communicable diseases, managing shared resources, promoting regional integration, and inculcating it as an element of national development strategy. However, operations will be configured to fit the circumstances of each ADF country, with the goal of enabling them to graduate from concessional assistance as soon as possible through faster economic growth. ADF X operations, which cover the first 4 years of Strategy 2020, will help DMCs to achieve the MDG targets by 2015.

42. **Fragile Countries and Situations.** Due to generally weak policy regimes, their often small size, economic vulnerability, and weak institutions in these countries—and fragile areas within other categories of countries—ADB must seek innovative means to strengthen the effectiveness of country-led models of engagement.²⁵ It will sustain commitments for longer periods, and expectations of country performance and aid effectiveness will likely need to be tempered. ADB will seek to align its development assistance with other funding agencies at strategic and project levels, and will pursue deeper, more flexible, and longer engagement in capacity enhancement and institutional development, sometimes with legitimate non-state actors. At the same time, ADB will work as a knowledge bank in contributing to change. It will use innovative instruments and approaches in country strategies and projects, without compromising the application of prudential policies and safeguards for administering operations. The full range of concessional resources—ADF, other special funds, grants, and trust funds—

²⁵ ADB. 2007. *Achieving Development Effectiveness in Weakly Performing Countries (The Asian Development Bank's Approach to Engaging with Weakly Performing Countries)*. Manila.

are expected to provide the largest amount of ADB financing to fragile countries and situations. The highly selective use of OCR may be possible for public economic infrastructure and private sector operations in some countries.

C. Core Areas of Operations

43. ADB cannot and will not attempt to meet all needs of all DMCs. To maximize results, efficiency, and impact, ADB will employ its financial and institutional resources in five core areas: infrastructure, environment, RCI, finance sector development, and education. Its DMCs have recognized ADB's comparative strengths in these specialized areas, as well as its proven record of achievements.²⁶ These areas are also tightly linked to ADB's three strategic development agendas of achieving inclusive economic growth, environmentally sustainable growth, and regional integration. Support for infrastructure development, environment, finance sector development, and education will be essential to sustaining growth and providing access to economic opportunities—the two pillars of inclusive growth. ADB's infrastructure and finance sector assistance will help move RCI forward.

1. Infrastructure

44. ADB investment in infrastructure is fundamental to achieving poverty reduction and inclusive growth, and can also contribute to environmentally sustainable growth and regional integration.²⁷ ADB will invest in infrastructure to improve transport and communication connectivity within and between DMCs. To meet growing energy demands in a sustainable manner, ADB will (i) help expand the supply of energy; (ii) promote energy efficiency through supply-side and demand-side measures; (iii) support clean energy; and (iv) facilitate the removal of policy, institutional, regulatory, technological, and legal constraints on promoting efficient energy use. To contribute to public health, ADB will invest in water, sanitation, and waste management systems. It will also continue to invest in rural infrastructure, covering irrigation and water management, rural roads, and rural electrification—services that particularly benefit women. In urban infrastructure, ADB will focus on water supply, sanitation, waste management, and urban transport. Moreover, ADB will continue to provide priority rehabilitation and reconstruction assistance in post-disaster and post-conflict situations.

45. ADB's infrastructure operations will not be limited to building physical assets. They will also include improving the delivery of infrastructure services, which will create an enabling environment for the private sector. ADB will (i) build DMCs' capacity for better infrastructure management, (ii) promote institutional and policy reforms that enhance operational efficiency and sustainability of infrastructure projects, and (iii) support logistical systems to increase trade and investment by building on basic infrastructure strengths and developing opportunities from policy and institutional reforms. Under Strategy 2020, ADB's infrastructure operations will emphasize public–private partnerships and private sector engagement. ADB will promote a larger role for the private sector in financing infrastructure, either as a project sponsor or an institutional bond or equity investor. The latter role carries great promise for augmenting the supply of capital for infrastructure in developing the region. However, improvements in a country's domestic debt market will be indispensable for increasing the flow of funds into infrastructure development.

²⁶ Through regional consultations, ADB has considered feedback it received from all DMCs, a broad range of stakeholders, and evaluations conducted by the Operations Evaluation Department.

²⁷ All DMCs have expressed strong support for ADB's continued operational emphasis on infrastructure.

2. Environment

46. ADB will strengthen its operational emphasis on the environment to realize environmentally sustainable growth for the region. ADB will expand its promotion of, and investment in, sound environmental management, while simultaneously capitalizing on its operational strengths, such as infrastructure development and finance. In its programs, policies, and strategies, ADB will emphasize the following:

- (i) **Climate change.** ADB will help DMCs move their economies onto low-carbon growth paths by: (a) improving energy efficiency; (b) expanding the use of clean energy sources; (c) reducing fugitive greenhouse gas emissions, such as methane released from landfills; (d) modernizing public transport systems; and (e) arresting deforestation. ADB will also help DMCs adapt to the unavoidable impacts of climate change—including those related to health—through national and municipal planning, investments in defensive measures, support for insurance and other risk-sharing instruments, and “climate-proofing” projects. Disaster risk management will be a vital part of the development process. Sustainable management of forest and other natural resources for provision of clean water supplies, protection of biological diversity, and sequestration of carbon from the atmosphere to offset greenhouse gas emissions will be part of ADB’s assistance to address climate change.
- (ii) **Livable cities.** To reduce the carbon footprint of Asia’s cities—i.e., the amount of harmful greenhouse gases produced—ADB will assist DMCs and their municipalities in addressing a range of environmental problems resulting from rapid urbanization. These include reducing air and water pollution, supporting cleaner modes of transport, improving systems for solid waste management, and reducing urban waste.
- (iii) **Complementary actions.** ADB will assist with mainstreaming environmental considerations into DMCs’ policies and investment programs, while strengthening the legal, regulatory, and enforcement capacities of public institutions in regard to environmental considerations. ADB will continue to reinforce environmental safeguards in its operations and in country systems, promote and support regional cooperation to provide effective approaches and solutions on shared environmental public goods, and facilitate the transfer of knowledge on environmental management and new technologies.

3. Regional Cooperation and Integration

47. In line with its new strategic agenda to promote greater regional integration, ADB will scale up its support for RCI, increasing both the volume of its RCI operations and the share of RCI in total operations. In doing so, ADB will attempt to fill some of the huge unmet demand for RCI initiatives in the region. Its investments will seek to accelerate growth and economic partnerships, as well as to address common risks and challenges. Under Strategy 2020, ADB will undertake four roles in the region by (i) increasing financial resources for RCI projects, programs, and related technical assistance (TA),²⁸ and/or helping DMCs mobilize funding and

²⁸ TA assists countries in identifying and designing projects, improving institutions, formulating development strategies, or fostering regional cooperation. TA can be financed by grants or—more rarely—loans through ADB’s central budget or a number of special funds provided by ADB’s donor members.

TA; (ii) expanding the creation and dissemination of knowledge and information on RCI to DMCs; (iii) furthering its support to DMCs and regional bodies to build their institutional capacity to manage RCI; and (iv) strengthening ADB's role as a catalyst and coordinator of RCI for DMCs. These activities aim to increase RCI, especially in subregions where it has been lacking and its benefits are most needed, and to meet emerging demands for investment in regional and global public goods, such as climate change.

4. Finance Sector Development

48. Development of the finance sector is essential to ensuring sustainable private sector-led economic growth. Moreover, without access to formal financial services and sustainable social insurance, including pensions, the poor will be excluded from the growth process and its benefits. Under Strategy 2020, ADB will strengthen its support to the finance sector at the regional and national levels by helping to develop financial infrastructure, institutions, and products and services. To promote inclusive growth, it will seek to create an enabling environment for microfinance, rural finance institutions, and SMEs, and will explore the use of technologies to expand the reach of the formal financial system to rural areas. At the regional level, ADB will continue to support cross-border bond transactions. For the emerging regional bond market, ADB will facilitate the creation of a harmonized regulatory framework, a common credit guarantee mechanism, and a regional clearing and settlement system. Through such initiatives, ADB will continue to assist in channeling the region's savings into the most productive investments, in particular, development of the capital market. ADB will continue to help build the capacity of financial institutions—and of their regulators—by introducing international best practices in cooperation with the International Monetary Fund and World Bank. ADB will also support the establishment of anti-money laundering regimes in partnership with other aid agencies.

5. Education

49. Investments in and access to education and vocational training are necessary for more inclusive growth. ADB has a proven record of achievements in education, having successfully taken the lead role in developing countrywide education programs and projects. ADB will continue to support expanded, higher-quality, more accessible basic and secondary education, particularly in smaller and poorer DMCs. It will increasingly direct its attention to raising the quality of technical and vocational education and training, and of selected fields in tertiary education. It will also support the expansion of these post-secondary education subsectors. ADB will help develop policies and capacity to ensure that programs to improve education are implemented effectively. Across all these areas, ADB will explore opportunities for new approaches and instruments involving public–private partnerships.

D. Other Areas of Operations

50. Under Strategy 2020, ADB will ensure that selectivity and responsiveness work in tandem, allowing ADB to provide DMCs with the most relevant products and services in the region's pursuit of national and regional development. In the process of partnership strategies with DMC governments, ADB will determine the correct mix of its products and services. For issues within its core operational priorities, ADB will seek to encourage cooperative action and to help establish partnership programs. ADB will assume a leadership role and dedicate its own resources to meet DMCs' development challenges, while also mobilizing and managing external resources. ADB estimates that 80% of its aggregate operations will fall within the five core areas. It will also operate on a limited scale in other areas where its presence is needed.

51. **Health.** ADB recognizes that health is vital to development, productivity, social inclusion, and gender equity. However, the international community has launched about 70 global health partnerships over the past 10 years. They have increased external financing available to DMCs' health sectors and expanded access to international-quality health products and services. In this environment, ADB will contribute to improvements in health mainly through infrastructure projects such as water management and sanitation and through governance work that focuses on public expenditure management for cost-effective delivery of health programs and services to all population groups. On other health-related issues, ADB must be highly selective and focused, engaging in well-defined roles in direct partnerships with other specialized organizations. ADB will also continue to incorporate activities to mitigate and to control transmission and spread of communicable diseases, particularly HIV/AIDS, in its transport and other infrastructure projects. It will provide other targeted assistance, including capacity development, to DMCs that are frequently subjected to internal and/or cross-border migration of individuals at high risk of carrying communicable diseases. When the emergence of a potential pandemic generates region-wide concern, ADB will cooperate with other partners in maintaining a watching brief,²⁹ sharing information, and conducting contingency planning at national or regional levels.

52. **Agriculture.** In the past, agriculture drove growth for much of the region through a rural-based cycle of improving productivity, employment, and consumption. In turn, it helped fuel industrial growth. As economies transform, however, the contribution of agriculture to national economic growth is diminishing. Yet the majority of the poor still live in rural areas, and agriculture remains a source of productivity improvement, seasonal employment, and income growth—especially when connected to urban, industrial, and export markets. Support for agriculture and rural areas is therefore an underlying component of the inclusive growth strategy. Furthermore, population growth, pressure on natural resources, competing food crop use, and the effects of extreme weather and climate change increase risks to future food security. ADB will support agriculture and rural development mainly through infrastructure for rural transport, irrigation and water systems, and microfinance. These efforts will be complemented by natural resources management and RCI activities, such as those relating to agricultural trade and investment in the Greater Mekong Subregion, through partnerships with specialist development agencies and NGOs.

53. **Disaster and Emergency Assistance.** The Asia and Pacific region suffers more natural disasters than any other region in the world. ADB has a long history of responding quickly and effectively to DMCs' emergency needs for rehabilitation and reconstruction. Under Strategy 2020, ADB will continue to mainstream disaster risk management and provide early and medium-term disaster response and assistance in partnership with specialized aid agencies.

V. GOALS AND PERFORMANCE

54. Under Strategy 2020, ADB will shift its operational course and modify its institutional character, guided by a set of corporate-wide core values:

²⁹ In countries or areas where the ADB portfolio is inactive due to factors such as arrears, insecurity, or poor governance, watching briefs help maintain ADB's knowledge base and awareness of social and economic trends. Watching briefs allow ADB to respond quickly when conditions are ripe for emergency intervention and/or for resumption of ADB's activities. Such briefs are typically implemented through a third party, such as an NGO or United Nations partner agency already on the ground.

- (i) **responsiveness** to all member countries' specific development interests;
- (ii) **recognition of country ownership** to enable partner countries to exercise effective leadership over development policies, strategies, and actions;
- (iii) **adherence to the highest professional and ethical standards** for the organization, and in its programs and stakeholder relations;
- (iv) **outstanding leadership and service** through information and knowledge sharing advocacy, and by enabling cooperative action on the issues facing the region;
- (v) **commitment to partnerships** with members of the international community in planning and implementing programs, and in mobilizing resources for the region's development; and
- (vi) **accountability and focus on results** by defining clear objectives, and organizing work and resources to achieve them.

55. To ensure the quality, efficiency, and effectiveness of its progress and transformation, ADB will utilize a results framework that will incorporate project, country, and institutional indicators.

A. ADB's Transformation to 2020: Operational Goals

56. The following indicators and targets will be used to measure ADB's progress in transforming its operations in accordance with Strategy 2020's main drivers of change and core operational areas.

1. ADB's Lending Portfolio

57. It is expected that ADB's lending portfolio will change and be more heavily weighted in its new strategic and operational areas, and that it will differ from ADB's current portfolio of loans in four respects:

- (i) **Dominant share of ADB's operations in its core operational areas.** ADB's operations will increasingly be concentrated on the five core operational areas and comprise 80% of its total annual approvals by 2012.
- (ii) **Scaled-up private sector development and private sector operations in all operational areas.** ADB's support for the development of the region's private sector will increase significantly, both in the number of ADB-financed projects and in its share of ADB's annual operations with a target of 50% by 2020.
- (iii) **Escalated assistance to support environmentally sustainable development.** ADB will progressively increase its assistance for environmentally sustainable development, including efforts to address carbon dioxide emissions and climate change. These operations will become a significant share of ADB operations by 2012.
- (iv) **Increased regional cooperation and integration in all operational areas.** To meet expected demand, and to pursue its objective of stimulating and supporting RCI, ADB will progressively raise its aggregate public and private lending at the regional and subregional level. This lending will account for an increasing portion of overall operations, reaching at least 30% by 2020.

2. Advancing Partnerships

58. ADB will make partnerships a core element of its business model. These partnerships will mobilize financial resources, leverage the power of knowledge, put ADB's unique abilities to wider and better use, meet special needs for highly specialized development projects, and help raise aid effectiveness throughout the region. Partnerships will become a central form of ADB engagement in planning, financing, and implementing operations. The partnership agenda under Strategy 2020 will increase resource flows, assist with trade facilitation, disseminate new technology, and enrich networking expertise. Outside of its core operational areas, ADB may cede the lead role in development initiatives. Specific elements of this goal include:

- (i) **Increased partnership-based cofinance and operations.** ADB's cofinanced lending will increase at a faster rate than ADB's stand-alone financing operations, with a long-term objective of having total annual direct cofinancing exceed the value of ADB's stand-alone project financing.
- (ii) **Greater knowledge channeling.** ADB will strengthen its knowledge solutions to achieve a satisfactory to high rating by clients based on perception surveys³⁰ and the Operations Evaluation Department's special evaluation studies on the performance of TA.³¹ ADB will expand networking with development partners to enhance knowledge sharing and the interchange of ideas.

3. Paris Declaration Commitments

59. Partnering with its DMCs and other development agencies, ADB will share responsibilities in a defined, transparent, harmonized, and mutually accountable manner to improve aid effectiveness. It will continue to report operational and institutional performance under the annual common performance assessment system, as well as in the annual Global Monitoring Report, both developed through collaboration between the multilateral development banks and other international financial institutions. ADB is committed to meeting all major commitments under the Paris Declaration by the agreement's target of 2012.

4. DMC Graduation

60. Considering the earlier discussion in Chapter IV on the importance of understanding the development context and outlook for individual DMCs, and on the assumption that the region's economy as a whole will sustain its robust economic growth, ADB aspires to assist DMCs to make measurable progress under its graduation policy: (i) Group C borrowers (countries eligible to borrow only OCR resources) at 2008 will have achieved or be on a medium-term path for graduation from regular ADB assistance by 2020; (ii) Group B borrowers (countries eligible to borrow ADF resources and OCR) at 2008 will have achieved or be on a medium-term path for graduation to OCR-only status by 2020; and (iii) Group A borrowers (countries eligible to borrow ADF-only resources) at 2008 will have achieved or be on a medium-term path for graduation to Group B status by 2020. ADB will strive to ensure that no country is left behind and that particular efforts are made to assist fragile countries in achieving their development objectives.

³⁰ ADB. 2006. *ADB Perceptions Survey: Multinational Survey of Opinion Leaders 2006*. Manila.

³¹ ADB. 2007. *Special Evaluation Study on Performance of Technical Activities*. Manila.

B. ADB's Transformation to 2020: Institutional Goals

61. ADB's Management is committed to establishing and sustaining institutional systems and competencies necessary for effective implementation of Strategy 2020. In its initial phase, Management intends to focus on putting four fundamental facets of ADB's institutional transformation into action: strategy, human resources, organization, and business processes.

1. Improving Coherence in Corporate Strategies and Policies

62. Redundancy and overlap in the growing number of ADB's strategies and policies have resulted in less-than-optimal allocation of institutional resources. In Strategy 2020's initial phase, Management will streamline ADB's array of corporate strategies and policies, making Strategy 2020 the paramount ADB-wide strategic framework. Strategy 2020 will focus and guide all country partnership strategies, and sector and thematic strategies. The work program and budget framework will reflect and support the strategic directions of Strategy 2020 on a medium-term basis to ensure that future ADB operations and resource mobilization are consistent. This will increase corporate efficiency and improve development impact. ADB's results framework will serve to evaluate progress of Strategy 2020's implementation.

2. Enhancing Human Resources and Skills Mix

63. Unquestionably, ADB's staff is its most important asset, and the ability to hire and to retain skilled, diverse talent will provide ADB with strong potential to achieve its vision for the region. Although ADB has historically been regarded as efficient in its use of human resources, it will need to build on this capacity continuously if it is to remain relevant and keep pace with a changing Asia and Pacific region. The level of professional and international experience of ADB's staff will determine its ability to carry out its strategic priorities and to meet clients' demands for dynamic, modern products and services. The direction and extent of change in the skills mix will vary by specialized area, but significant capacity building will be necessary over a range of fields. Even in infrastructure—arguably its strongest core operational area—ADB will need to align its technical, financial, and economic expertise to standards that maintain the respect and confidence of clients and business executives interested in public–private partnerships. In activities where its operations have been limited but are expected to increase (e.g., environment and private sector operations), ADB must add new or substantially enhance permanent staff skills. In this context, Management will consider alternative approaches for cost-effective mobilization, deployment, and retention of its technical staff at headquarters and elsewhere across the region. More flexible recruitment practices are being introduced, including the use of differentiated terms and conditions and simultaneous internal and external advertising for appointment of all staff, including senior staff. In addition, based on the results of the periodic staff engagement surveys, Management will take appropriate actions to foster its staff's continued commitment to ADB's mission as a development bank and to optimize its staff's knowledge and passion for development. Management, with the assistance of external experts, will conduct a comprehensive review of ADB's human resources strategy in 2008.

3. Improving the Organizational Structure

64. In executing Strategy 2020, Management will consider the organizational arrangements that best support country ownership with professional excellence, overcome internal weaknesses, and increase synergies among ADB operations. To meet the diverse needs of clients more effectively and to make the best use of its resources, Management will give each department more flexibility in determining its own organizational structure. Management will also

examine options for optimizing the deployment of resources to support private sector development by the various regional departments and the Private Sector Operations Department. Increased lending to the private sector will also require the enhancement of ADB's financial and risk management capacity. Furthermore, ADB's strategic focus on environment, particularly climate change, will require Management to consider an organizational structure that better caters to the fast-rising demand for ADB products and services in this area. Other changes that might arise over the longer term include further decentralization of the organization, taking into consideration the capacity of resident missions, and streamlining the knowledge units where appropriate.

4. Increasing Corporate Responsiveness

65. During regional consultation meetings, ADB's clients expressed a desire for lower transaction costs for project preparation and implementation, reduced documentation requirements, and decentralization of decision making to resident missions. Although Management needs to balance responsiveness and cost effectiveness with the need to meet due diligence, other legal requirements, and best development practices, Strategy 2020 commits ADB to finding ways to be more responsive to its borrowers' interests, including the strategic use of modern information and communications technologies and the creation of benchmarks to monitor and measure its responsiveness.

C. Managing Implementation of Strategy 2020: ADB's Results Framework

66. To be more effective in achieving development within the region, ADB must be able to monitor and evaluate its work in a measurable way and to take appropriate actions based on results. This means being able to measure project, country, and institutional outputs, outcomes, and impacts. Since 2004, ADB has monitored its institutional performance through the introduction of results frameworks, which include performance indicators and quantified targets, in its main corporate reporting and planning documents. In light of Strategy 2020's shift toward coherent and efficient reporting, as well as a focus on cohesive institutional strategies and policies, ADB has developed a structure of a corporate-level results framework with preliminary indicators to monitor and report on its total effectiveness (Appendix 2). The refined results framework, with baseline data and targets, will be included in the Development Effectiveness Review to be produced in the third quarter of 2008. This results framework will track progress in long-term collective development outcomes, as well as in specific activities and outputs in relation to achieving ADB's strategic priorities. As ADB implements Strategy 2020, this framework will be fine-tuned in response to the transformation of the region and the institution.

67. A comprehensive monitoring and evaluation tool, the results framework has four categories of results areas: (i) regional outcomes, (ii) contribution to country outcomes, (iii) operational effectiveness, and (iv) organizational effectiveness.

68. **Regional Outcomes.** The results framework's first category enables ADB to monitor its contribution to the global community's international development agenda. ADB will monitor progress through groups of MDG indicators associated with its core operational areas, i.e., those that assess income and non-income measures of poverty, and those that evaluate growth, infrastructure, and business environment. If these MDGs are achieved or on track by the 2015 deadline, ADB's assistance in relation to its core areas can be adjusted to support progress in other areas.

69. **Contribution to Country Outcomes: Key Outputs.** The results framework's second category aggregates tangible contributions from various forms of ADB assistance to specific country outcomes. ADB will examine output indicators of five sectors—transport, energy, water, finance, and education—to enable monitoring of the core operational areas under Strategy 2020. Outcomes for the beneficiaries will also be broken down according to rural, urban, and regional areas to track key subthemes—building livable cities, rural infrastructure development, and cross-border transport connections.

70. **Operational Effectiveness.** The results framework's third category, which measures ADB's operational effectiveness, comprises a standard set of measures applied across the multilateral development banks. ADB will monitor its progress on operational effectiveness through four sets of indicators: operational quality and portfolio performance, finance mobilization, knowledge development, and partnerships.

71. **Organizational Effectiveness.** The results framework's fourth category captures progress in implementing internal reforms that will ensure ADB's stature as a relevant and results-oriented organization. These comprise three areas: human resources, budgetary resources, and business processes and practices.³²

D. Utilizing the Results Framework

72. Management will use the results framework to examine specific but wide-ranging indicators in line with Strategy 2020's vision and strategic direction to monitor progress, measure results, and take corrective actions where required. Frequency and timeliness of reporting will be carefully considered for each indicator, and will be determined based on their expected usefulness, relevance, speed of change, and cost-benefit assessment of obtaining such information for the organization.

73. ADB will assess and report on progress in implementing Strategy 2020 through its annual Development Effectiveness Review, beginning with the 2008 review to be produced by the third quarter of 2009, and guided by the results framework. The review will be a unified performance report of ADB, consolidating the existing Annual Poverty Reduction Report, progress reports on the implementation of the reform agenda, and semiannual progress reports on the Managing for Development Results action plan. It will be a vital instrument informing Management of the progress made and identifying areas needing further efforts or corrective action.

E. Next Steps

74. Management will begin implementing Strategy 2020 immediately after its approval by the Board of Directors. All ADB departments and offices will examine the implications of Strategy 2020 on their short- and medium-term work programs and resource requirements, and will

³² The indicators for this level are standard quantifiable measures that normally require monitoring over a long period. However, for Strategy 2020's purposes, progress in internal reforms will be best captured through other means, such as process indicators and qualitative assessments. Therefore, although activity-based reporting will mainly be used to assess ADB's operational effectiveness, it will also be directly linked to its organizational effectiveness. In addition, for this level's indicators, directions, and targets will reflect the continual changes in the region's environment and business models that are expected to 2020. For instance, the desirable level of decentralization and optimal balance of staff in operational and non-operational areas are likely to be altered in response to the region's development. As a consequence, this framework level will be more fluid and subject to periodic reviews.

submit action plans to their vice presidents for the initial phase of Strategy 2020's implementation.

75. Immediately following the adoption of Strategy 2020, ADB will disseminate it widely. It will communicate its new long-term strategic directions to all development partners and the private sector to seek widespread understanding of and broad-based support for early implementation, including partnerships.

76. In addition, the ADB-wide operational database will be put in place, consistent with Strategy 2020, by December 2008. Designed to overcome the weaknesses of the current database that were identified in the Operations Evaluation Department's report, the new database will enable the implementation of Strategy 2020 to be tracked against the results framework, allowing corrective actions to be taken at an early stage.

VI. RESOURCING THE STRATEGY

77. The challenges facing the region will require massive capital investments. Based on an internal ADB study, an estimated \$4.7 trillion will be needed over the next 10 years for the region's infrastructure requirements. This figure comprises \$3.1 trillion for new capacity and the balance for capacity replacement. The estimated annual investment needs for environmental issues are as high as \$100 billion, including \$30 billion for renewable energy, \$28 billion for adaptation to climate change, \$14 billion for energy efficiency, and \$8 billion for sustainable management of water resources. Finance sector development requirements for the region are also likely to be sizeable, as an estimated \$197 billion in investments will be needed for capitalizing banks up to 2020 in South Asia alone.³³ For education, the financing shortfall that must be covered to achieve the MDGs on universal primary education by 2015 has been estimated at \$7 billion a year during 2001–2015.

78. Strategy 2020 propels ADB into the role of a lead development partner. In addition to knowledge and expertise, substantial concessional and nonconcessional resources must underwrite this role and ADB's risk-bearing responsibilities. Under Strategy 2020, ADB must ensure that it always has the financial means to achieve its goals.

79. Recent trends in ADB's concessional lending and grant-financed assistance demonstrate DMCs' strong demand for ADF resources. ADB's ability to advocate for and to support progress on MDGs in ADF borrowers depends on having concessional resources that are commensurate with ADB's development role in these DMCs. ADB's preliminary estimates suggest that the financing gap for achieving the MDGs in its 29 ADF countries alone could be as high as \$100 billion for the ADF X period, 2009–2012. ADB's longer-term projections on per capita income growth in current ADF-eligible borrowers show that many will remain below the ADF eligibility threshold as ADF-only or blend³⁴ borrowers to 2020. Therefore, under Strategy 2020, ADB will seek continued support from its donor members to strengthen the financial capacity of ADF.

80. Strategic operational planning and policy dialogue with ADB's OCR borrowers—both OCR-only and blend borrowers—suggests stronger demand for ADB's nonconcessional assistance beyond current levels of operations. This is particularly the case for current blend

³³ The estimates assume a risk-based capital adequacy, 10% growth per year in banking assets, and a gradual decline in the nonperforming loan-to-asset ratio.

³⁴ "Blend" borrowers refer to those DMCs who receive loans from both ADF and OCR.

borrowers, where economic growth and institutional strengthening are enlarging their capacity to use ADB's nonconcessional assistance to raise the quality of their economic and social infrastructure and to address environmental issues. Projections on growth in DMCs' per capita incomes again show that many current OCR borrowers will remain below the graduation threshold to 2020.³⁵

81. The present estimates of future OCR lending headroom will not allow ADB to sustain current levels of OCR operations, let alone scale up assistance to end poverty and pursue the three strategic agendas. While it is beyond the scope of Strategy 2020 to define the optimal level and sourcing of resources for ADB to 2020, a process for this needs to be initiated and an agreement reached in Strategy 2020's early phase that will support a strengthened development-finance role for ADB in the region.

VII. CONCLUSION

82. The Asia and the Pacific region is growing rapidly, but concerns regarding its inclusiveness, environmental impact, and sustainability require a new development approach, innovative thinking, and cooperative actions. Acknowledging the need for change, Strategy 2020 repositions ADB within the evolving international aid architecture, defines its operational focus, and sets strategic operational and institutional goals. Under Strategy 2020, and with access to the necessary financial and other institutional resources, ADB will strive to achieve excellence in its investment and knowledge-based assistance, delivering more aid more effectively with greater results and impact. Strategy 2020 will enable ADB to realize its full potential in benefiting the region and the international community.

VIII. RECOMMENDATION

83. The President recommends that the Board of Directors approve Strategy 2020 to establish the strategic direction of ADB for 2008–2020.

³⁵ Experience shows that OCR-only borrowers may decide to scale back and cease borrowing from ADB before reaching the graduation threshold.

A SNAPSHOT OF DEVELOPING ASIA AND THE PACIFIC

Table A1.1: Gross Domestic Product

| Indicator | Central and West Asia | East Asia | South Asia | Southeast Asia | The Pacific | World |
|--|--------------------------|-----------|---------------|-------------------|----------------|----------|
| GDP (constant 2000 \$ billion) | | | | | | |
| 2000 | 118.0 | 1,879.8 | 530.2 | 583.3 | 6.8 | 31,800.3 |
| % share | 0.4 | 5.9 | 1.7 | 1.8 | 0.0 | 100.0 |
| 2006 | 176.7 | 2,987.6 | 798.2 | 781.6 | 7.7 | 37,866.4 |
| % share | 0.5 | 7.9 | 2.1 | 2.1 | 0.0 | 100.0 |
| Per Capita GDP (constant 2000 \$) | | | | | | |
| 2000 | 576.7 | 1,425.5 | 445.7 | 1,135.2 | 847.6 | 5,242.9 |
| 2006 | 772.8 | 2,181.1 | 612.8 | 1,401.5 | 842.5 | 5,809.9 |
| Merchandise Exports (current \$ billion) | | | | | | |
| 2000 | 27.0 | 624.7 | 55.2 | 432.0 | 2.8 | 6,454.6 |
| % share | 0.4 | 9.7 | 0.9 | 6.7 | 0.0 | 100.0 |
| 2006 | 76.0 | 1,618.9 | 140.4 | 770.6 | 5.2 | 12,063.5 |
| % share | 0.6 | 13.4 | 1.2 | 6.4 | 0.0 | 100.0 |

Source: World Bank. World Development Indicators *Online* (downloaded 28 February 2008).

Table A1.2: Poverty

| Indicator | 1990 | | 2004 | | 2015 | |
|---|--------------|--------------|--------------|--------------|--------------|--------------|
| | million | % | million | % | million | % |
| Share of subregions to the population living on less than \$1/day | | | | | | |
| East Asia and Pacific | 476 | 38.2 | 169 | 17.5 | 40 | 6.4 |
| South Asia | 479 | 38.4 | 446 | 46.1 | 256 | 41.0 |
| Europe and Central Asia | 2 | 0.2 | 4 | 0.4 | 2 | 0.3 |
| Middle East and North Africa | 5 | 0.4 | 4 | 0.4 | 2 | 0.3 |
| Latin America and Caribbean | 45 | 3.6 | 47 | 4.9 | 34 | 5.4 |
| Sub-Saharan Africa | 240 | 19.2 | 298 | 30.8 | 290 | 46.5 |
| Total | 1,247 | 100.0 | 968 | 100.0 | 624 | 100.0 |
| Share of subregions to the population living on less than \$2/day | | | | | | |
| East Asia and Pacific | 1,113 | 42.0 | 684 | 26.8 | 296 | 14.7 |
| South Asia | 954 | 36.0 | 1,116 | 43.8 | 997 | 49.5 |
| Europe and Central Asia | 20 | 0.8 | 46 | 1.8 | 16 | 0.8 |
| Middle East and North Africa | 49 | 1.9 | 59 | 2.3 | 38 | 1.9 |
| Latin America and Caribbean | 115 | 4.3 | 121 | 4.7 | 102 | 5.1 |
| Sub-Saharan Africa | 396 | 15.0 | 522 | 20.5 | 567 | 28.1 |
| Total | 2,647 | 100.0 | 2,548 | 100.0 | 2,016 | 100.0 |

Source: World Bank. 2008. *Global Economic Prospects 2008*. Washington, D.C.

Table A1.3: International Reserves and Total Debt, end of the year

| Indicator | Central and West Asia | East Asia ^a | South Asia | Southeast Asia | The Pacific |
|--|-----------------------|------------------------|------------|----------------|-------------|
| International Reserves, 2006 (\$ million) | 48,952.0 | 1,724,386.0 | 185,277.0 | 368,784.0 | 1,834.0 |
| Total External Debt (\$ million), 2005 | 91,053.0 | 557,941.0 | 157,681.0 | 635,571.0 | 3,253.0 |
| Total Debt Service Paid (\$ million), 2005 | 17,486.0 | 27,407.0 | 25,726.0 | 58,045.0 | 457.0 |
| Total External Debt/GNI (%), 2005 | 43.5 | 12.5 | 17.6 | 43.7 | 36.6 |
| Total External Debt/Exports (%), 2005 | 128.3 | 32.0 | 564.7 | 63.8 | 79.3 |

^a For data on Total External Debt/GNI (%) and Total External Debt/Exports (%), East Asia includes PRC and Mongolia only.
Source: Asian Development Bank. 2007. *Key Indicators 2007. Manila*. World Bank; Global Development Finance *Online* (downloaded 5 March 2008).

Table A1.4: Energy and Environment

| Indicator | 2000/2001 | 2005 | 2015 | 2030 |
|--------------------------------------|-----------|---------------------------------|---------------------------------|---------------------------------|
| | | Growth rate 2000–2005 (%) | Growth rate 2005–2015 (%) | Growth rate 2015–2030 (%) |
| Electricity Demand (TWh) | | | | |
| Asia | 2,025.0 | 3,277.0 | 6,665.0 | 11,131.0 |
| (%) | 16.1 | 21.8 | 31.3 | 37.4 |
| World | 12,609.0 | 15,016.0 | 21,278.0 | 29,737.0 |
| (%) | 100.0 | 100.0 | 100.0 | 100.0 |
| Electricity Generation (TWh) | | | | |
| Asia | 2,607.0 | 4,143.0 | 8,233.0 | 13,480.0 |
| (%) | 16.9 | 22.8 | 32.2 | 38.1 |
| World | 15,391.0 | 18,197.0 | 25,556.0 | 35,384.0 |
| (%) | 100.0 | 100.0 | 100.0 | 100.0 |
| CO₂ Emissions (Mt) | | | | |
| Asia | 5,292.0 | 7,690.0 | 12,440.0 | 17,464.0 |
| (%) | 22.3 | 28.3 | 36.5 | 41.7 |
| World | 23,683.3 | 26,620.0 | 34,071.0 | 41,905.0 |
| (%) | 100.0 | 100.0 | 100.0 | 100.0 |

Source: International Energy Agency. 2002 and 2007. *World Energy Outlook*. Paris.
TWh = terawatt-hour

STRUCTURE OF THE ASIAN DEVELOPMENT BANK'S RESULTS FRAMEWORK³⁶

| Indicators |
|--|
| Level 1: Asia-Pacific Outcomes |
| <i>Millennium Development Goals GDP, infrastructure, business environment, governance, and trade</i> |
| Level 2: Contribution to Country Outcomes: Key Outputs |
| <i>Transport Energy Water Education (at all levels) Finance</i> |
| Level 3: Operational Effectiveness |
| <i>Operational quality and portfolio performance Finance mobilization Knowledge development Partnerships</i> |
| Level 4: Organizational Effectiveness |
| <i>Use of human resources Use of budgetary resources Business processes and practices</i> |

³⁶ The results framework will be further refined and indicators, baselines and targets will be developed. The final results framework will be submitted to the Board for approval.