

MANAGEMENT RESPONSE TO INDEPENDENT EVALUATION DEPARTMENT TOPICAL PAPER: KNOWLEDGE, FINANCE, AND THE QUALITY OF GROWTH: AN EVALUATIVE PERSPECTIVE ON STRATEGY 2030

On 24 April 2017, the Director General, Independent Evaluation Department, received the following response from the Director General, Strategy and Policy Department on behalf of Management:

I. General Comments

1. We thank the Independent Evaluation Department (IED) for this timely evaluative perspective on Strategy 2030. Overall, we agree with the report's assessment about the changing development landscape, the emerging challenges and opportunities for the Asia and Pacific region, and how ADB should respond by adopting a more thematic and integrated approach to operations, and focus on leveraging knowledge and finance.

II. Response to Recommendations

Recommendation 1: Adopt under Strategy 2030, the pursuit of better-quality growth (instead of its magnitude) in Asia and the Pacific as ADB's primary strategic objective and value proposition, rooted in intensified support for social and geographical inclusion, sustainability, and integration.

2. *Management agrees.* We would like to emphasize that under Strategy 2020, ADB is already focused on improving the quality of growth through the three pillars of inclusive economic growth, environmentally sustainable growth, and regional cooperation. Given the challenges of growing income inequality, environmental degradation, and climate change, ADB will continue to focus on the "quality of growth" under Strategy 2030 as well. It would have been useful if the report had provided guidance on how to quantify and measure quality of growth.

Recommendation 2: Focus ADB's resources and operations on seven identified thematic priorities representing the region's current and future challenges underpinned by a drive for improved economic opportunities, greater gender equality, knowledge, strong institutions, and increased ability to manage risks and safeguard stability, to support the central objective of better-quality growth for Asia and the Pacific.

3. *Management agrees.* ADB supports these seven identified thematic priorities. After the consultations on Strategy 2030, ADB might decide to focus on some or all of these thematic priorities and might even add some more. Regional departments such as East Asia Department are already working closely with sector and thematic groups to integrate relevant thematic priorities into project design at the concept paper stage. The Private Sector Operations Department (PSOD) is preparing a strategy that is aligned with IED's views regarding risk and diversifying sector and product mix.

Recommendation 3: Embrace a more programmatic and integrated approach to operations, rooted in a business model that places leveraging of knowledge and

finance (including through syndication) as its central tenets; choose to decisively support the private sector, and introduce a more adaptable principle of selectivity.

4. *Management agrees.* The need to explicitly identify relevant thematic complementarities and country/local context into the design of projects is appreciated. This is already being done in most projects, and will be strengthened further under Strategy 2030. We fully agree with the recommendation to introduce more adaptable principle of selectivity.

Recommendation 4: Underpin strategic intentions by aligning organization structures and incentives. Align the organizational structure and human resources to better support the ability to work as One ADB.

5. *Management agrees.* Several initiatives are already underway to align the organizational structure and human resources to better support the ability to work as One ADB. We would like to note that the recommendation with respect to “*either expanding Office of Cofinancing Operations into a full-fledged department, or transferring its relationship management and cofinancing policy functions to Strategy, Policy and Review Department, while shifting its fund management and cofinancing support functions entirely to Sustainable Development and Climate Change Department*” (para. 152), was also made in IED’s thematic evaluation study of “*The Effectiveness of ADB’s Partnerships (2016)*”. In line with our Management Response dated 7 March 2016 on that study, we reiterate the need for a detailed assessment of the human and financial resource implications of these options since it is unclear whether they will be more efficient as compared to strengthening and further streamlining of current practices. At this stage, we are not sure if the new strategy will include details of organizational changes, if any.

Recommendation 5: Further diversify the lending products and knowledge-transfer instruments ADB has to offer, and strengthen project-development skills, not only to further ADB’s portfolio but also to boost the number of bankable projects for syndication and cofinancing.

6. *Management agrees.* As background work for Strategy 2030, ADB is reviewing its products and instruments to respond better to evolving client needs. The Office of Public-Private Partnership is already assisting DMCs in structuring bankable public-private partnership projects, which may or may not be financed by ADB. PSOD is increasing the range of sectors it assists and products it offers. This type of work will be strengthened under Strategy 2030.

Recommendation 6: Introduce a notion of process excellence by scaling up efficiency improvements in ADB’s business processes, including procurement, the measurement of strategic results, and revisit the concept of graduation.

7. *Management agrees.* The Operations Services and Financial Management Department’s second generation procurement reforms were approved by the Board on 12 April 2017. Other initiatives for streamlining business processes (e.g. with respect to Country Partnership Strategies and Technical Assistance) have been approved in recent months. More such measures will be undertaken, as required. We agree with the IED Report’s suggestion regarding the need for

flexible interpretation of the graduation policy to continue engagement with the upper middle income countries.