



Moving the Poverty Reduction Agenda Forward IN ASIA AND THE PACIFIC

THE LONG-TERM STRATEGIC FRAMEWORK
OF THE ASIAN DEVELOPMENT BANK
(2001-2015)

This has been superseded by the [Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank 2008-2020](#) approved in April 2008.

Asian Development Bank

March 2001

Published by Asian Development Bank, 2001

The Asian Development Bank encourages the use of the material presented herein, with appropriate credit given to ADB. Please address inquiries for copies to the Chief, Office of External Relations, Asian Development Bank, P.O. Box 789, 0980 Manila, Philippines.

ISBN: 971-561-357-8
Publication Stock: 030601

ABBREVIATIONS

ADB	Asian Development Bank
CSP	country strategy and program
DMC	developing member country
GDP	gross domestic product
HIV/AIDS	human immunodeficiency virus/acquired immunodeficiency syndrome
IDG	international development goal
LTSF	long-term strategic framework
MDB	multilateral development bank
MTSF	medium-term strategic framework
NGO	nongovernment organization
ODA	official development assistance
PRC	People's Republic of China
SWAP	sectorwide approach

In this report, "\$" refers to US dollars.

CONTENTS

PREFACE v

EMERGING ASIA: CHALLENGES TO DEVELOPMENT 1

Regional Development Challenges 3

The Global Context 7

ADB's Response to the Region's Challenges 9

THE STRATEGIC AGENDA 13

Core Strategic Areas of Intervention 16

Sustainable Economic Growth 16

Inclusive Social Development 19

Governance for Effective Policies and Institutions 20

Crosscutting Strategic Themes 22

Promoting the Role of the Private Sector in Development 22

Supporting Regional Cooperation and Integration for Development 25

Addressing Environmental Sustainability 27

IMPLEMENTING THE STRATEGY 31

Strategic Operating Principles 32

Ensuring Country Leadership and Ownership of the
Development Agenda 32

Taking a Long-Term Approach to Development Assistance 32

Enhancing Strategic Alliances and Partnerships 33

Measuring Developmental Impact 34

Operating Modalities 35

Organization and Human Resources 38

RESOURCES FOR THE STRATEGY 43

NEXT STEPS 49

APPENDIXES 51

Preface

The Asian Development Bank (ADB) has been contributing significantly to the economic and social development of its developing member countries (DMCs) since its founding in 1966. During the past three decades, the Asia and Pacific region has achieved unprecedented economic and social development. Indeed, several DMCs have achieved development levels equal or close to those of the industrial countries, and substantial progress in development has been recorded throughout the region. ADB has played a significant role in these successes. Importantly, it has done so in an efficient and cost effective way.

Under its Charter, ADB remains committed to the ideals of its founders “to foster economic growth and cooperation in the region and to contribute to the acceleration of the process of economic development of the developing member countries, collectively and individually.” The Charter mandates ADB to finance development of its DMCs through “regional, subregional and national projects and programs which contribute most effectively to the harmonious economic growth of the region as a whole.” However, to remain an effective institution relevant to the changing needs of the region, ADB has continually been adapting its priorities, assistance modalities, and organizational structure, and has transformed itself from what was essentially a project financier to a full-fledged development institution.

To guide these strategic changes, ADB in 1983 commissioned the *Study of the Operational Priorities and Plans of the Asian Development Bank for the 1980s*; it reviewed ADB’s operations and resulted in their reorientation for

ADB has been contributing significantly to the economic and social development of its developing member countries.

Despite the significant progress in the past three decades, the Asia and Pacific region is still home to two thirds of the world's poor.

the 1980s. In 1989, a similar report, *The Asian Development Bank in the 1990s: Panel Report*, defined ADB's strategic priorities for the 1990s. These strategic documents have served ADB well. They have resulted in important changes in priorities, areas of operations, and assistance. The 1990s strategy, for instance, led to emphasis on expanded assistance for social infrastructure, projects targeted at the poor, and projects designed to improve the environment.

The Asia and Pacific region has continued to change in profound ways since ADB last formulated a long-term strategy a decade ago. The context in which ADB will operate over the next decade will be dramatically different from that of the 1990s. In particular, globalization, led by trade and financial liberalization and accelerating with the rapid spread of information and communications technology, is having a deep impact on Asian economies and societies. Globalization will be changing not only the ways markets work but also the ways governments, the private sector, and civil society work and interact. In recent years, moreover, development thinking has also been changing, with new approaches emphasizing a broader view of development; stronger ownership by stakeholders; wider partnerships among DMC governments, the private sector, civil society, and aid agencies; and renewed emphasis on environmental issues.

Most important of all, despite the significant progress in the past three decades, the Asia and Pacific region is still home to two thirds of the world's poor. Even gains made in poverty reduction through many years of rapid and sustained growth can be reversed quickly, as shown by the 1997 Asian crisis. The challenge of reducing deeply entrenched poverty in the region remains more daunting than ever, and requires new approaches and commitments.

Under these circumstances, ADB has been reassessing the major long-term development challenges of the region and the changing needs of its DMCs. ADB's strategic review of its long-term priorities benefited from

the 1997 study, *Emerging Asia: Changes and Challenges*, a number of other internal studies evaluating its operations, and ADB's accumulated experience and perceived strengths. In early 1999, poverty reduction was declared the overarching goal of ADB, and ADB's Board approved the poverty reduction strategy later that year. In early 2000, the private sector development strategy was approved to help promote growth to support poverty reduction efforts. The long-term strategic framework (LTSF) builds on these two strategies, takes into consideration ADB's other policies, such as that on governance, and is integrated with the International Development Goals, the series of aims and benchmarks agreed to by world conferences for tackling poverty worldwide by 2015. The LTSF is intended to realize the new vision and mission of ADB, provide all stakeholders with its long-term strategic goals and fundamental operating principles, and to be the key statement to guide its strategic management over the next decade and a half.

In early 1999,
poverty reduction
was declared the
overarching goal of
ADB, and ADB's
Board approved the
poverty reduction
strategy later
that year.

The preparation of the LTSF has been undertaken by a team of ADB staff headed by the Director of the Strategy and Policy Department. The preparation was guided by a wide consultation process. During the year 2000, ADB held extensive consultations with its Board of Directors, staff at all levels, borrowing and nonborrowing shareholders, multilateral and bilateral development partners, and representatives of nongovernment organizations and civil society in both borrowing and nonborrowing countries. The LTSF thus represents a broad consensus among ADB stakeholders.

An important feature of the LTSF has been the convening of a Senior External Advisory Panel comprising nine eminent people from within and outside the region (Appendix 1). The panel met three times: twice in Manila and once in New Delhi. The panel provided valuable advice and guidance in the preparation of the LTSF.

TADAO CHINO
President
Asian Development Bank

Emerging Asia: Challenges to Development

The context of Asian development has changed dramatically since the establishment of the Asian Development Bank (ADB) more than three decades ago. It is likely to change at least as much in the next 15 years, and to present considerable challenges—both as constraints and as opportunities—to the countries of the region. These challenges are the outcome of regional and global trends that will shape the development agenda of the region and ADB’s corresponding long-term strategic agenda.

The developing Asia and Pacific region¹ is the largest developing region in the world in landmass, population, and aggregate income. Its 3.2 billion people comprise over 70 percent of the developing world’s population, but account for only 47 percent of the aggregate gross domestic product (GDP) of all developing countries.² This is only slightly more than 11 percent of the GDP of the countries in the Organization for Economic Cooperation and Development. The developing Asia and Pacific region is very diverse, ranging from very large countries and economies such as the People’s Republic of China (PRC) and India to very small island economies in the Pacific and small landlocked economies in continental Asia.

The results of regional and global trends will shape the development agenda of the region and ADB’s corresponding long-term strategic agenda.

¹ The developing Asia and Pacific region refers to a geographical area covering the Central Asian republics, South Asia, Southeast Asia, East Asia, and the island countries of the Pacific.

² These figures are for 1998. All data in this section are derived from *Human Development Report 2000*. New York: United Nations Development Programme.

The region comprises over 70 percent of the developing world's population but accounts for only 47 percent of its aggregate GDP.

The region as a whole has achieved unprecedented sustained growth and development in the past three decades. Growth was accompanied by a dramatic decline in the incidence of absolute poverty, significant increases in per capita incomes, and notable improvements in key social indicators. GDP per capita quadrupled in real terms between 1975 and 2000 in East Asia, nearly tripled in Southeast Asia, and doubled in South Asia. Life expectancy rose from 50 years to more than 62 years in South Asia and from 54 years to 67 years in Southeast Asia. Adult literacy rates rose in East and Southeast Asia from around 80 percent in 1980 to more than 90 percent in 1995. In South Asia (with the notable exception of Sri Lanka, where the literacy rate was already very high), literacy rates increased from 40 percent to about 50 percent during the same 15 years. These figures reflect a remarkable record of development for the region.

However, aggregate success hides a great diversity of development experiences: the region includes economies at very different stages of development; among and within countries, not all have shared equally in the benefits of the region's growth. East and Southeast Asia, spurred by astonishing growth rates, achieved a remarkable socioeconomic transformation. South Asia also made significant progress, but still lags far behind East and Southeast Asia according to most economic and social indicators. The Central Asian republics fell dramatically into poverty after the breakup of the former Soviet Union precipitated their transition to market economies. In many of the small island economies of the Pacific, income growth is too slow to overcome poverty. Similarly, within countries wide differences reflect the uneven distribution of the benefits of development, including the continuing marginalization of significant groups. Success also created its own problems: increasingly unequal distribution of income and wealth, and the emergence of new groups of poor (such as those in urban areas), as well as environmental degradation and resource depletion, often accompanied growth.

Almost two thirds of the world's poor live in developing Asia and the Pacific.³ While the vast majority of the poor are in the PRC and India, the incidence of poverty remains high throughout the region, especially in smaller countries. In South Asia, the actual numbers of poor people have increased since 1987, although the percentage of poor declined moderately during the 1990s. And while poverty has been greatly reduced in some areas, the 1997 Asian crisis reinforced the painful lesson that even gains made through many years of rapid and sustained growth can be all too quickly reversed. The Asia and Pacific region is thus central to the fight against global poverty, and more generally to the achievement by 2015 of the international development goals (IDGs), which have been set by a broad consensus of the global community (see box on page 4) and to which ADB is firmly committed.

Robust, sustainable
economic growth
is essential for
poverty reduction,
development, and
improvements in
quality of life.

Regional Development Challenges

Poverty Reduction, Growth, and Sustainability. Poverty reduction remains the central challenge in the region. Robust, sustainable economic growth is essential for significant gains in poverty reduction, for addressing the diverse problems of underdevelopment, and more generally for improvements in the quality of life. Achieving the IDGs for the Asia and Pacific region will require major economic and social progress, robust, sustainable economic growth, and the mobilization of huge resources. The countries of the region need to address these challenges of growth and sustainability in a systematic manner. Building and upgrading physical and social infrastructure throughout the region is a primary condition for robust, sustained growth, with large investments required in social services such as education, health, water supply, sanitation, and shelter, especially in the poorer countries. Ensuring the environmental

³ Based on a one dollar-a-day poverty line.

Asia and the International Development Goals

Reducing poverty, in all its forms, is the greatest challenge for the international community. Of the world's 6.0 billion people, 1.2 billion live on less than \$1 a day and another 2.8 billion live on less than \$2 a day. Eight of every 100 infants do not live to see their fifth birthday; 9 of every 100 boys and 14 of every 100 girls reach school age without enrolling in school. Poverty is also most visible among people who have no political representation or voice; those who have limited or no access to basic social services; and those who are vulnerable to ill health, economic dislocation, social injustice, and natural disasters.

Following the agreements and resolutions of various world conferences organized by the United Nations in the first half of the 1990s, seven broad international development goals (IDGs) have been identified. Each IDG addresses one aspect of poverty, but they should all be seen as a whole in tackling the world's poverty problems by 2015. The IDGs serve as benchmarks to the global effort to address the core causes of poverty. The IDGs are

- reduction in the incidence of extreme poverty by half between 1990 and 2015,
- 100 percent primary school enrollment by 2015,
- elimination of gender disparities in primary and secondary education by 2005,
- reduction in infant and child mortality by two thirds between 1990 and 2015,
- reduction in maternal mortality ratios by three quarters between 1990 and 2015,
- access for all to reproductive health services by 2015, and
- implementation by all countries of a national sustainable development strategy by 2005 and reversal of the loss of environmental resources by 2015.

The Asia and Pacific region has made a lot of progress in achieving the IDGs. The progress has, however, been uneven. South Asia lags behind with respect to several key indicators, as shown in the accompanying table, and considerable concerted efforts will be required if the IDGs are to be achieved. For East Asia in aggregate, many of the goals—including reduction in the incidence of poverty—had almost been achieved by 1998. However, much still needs to be done to reach the targets for reductions in child mortality and increased access to reproductive health care. Also, environmental deterioration and degradation remain a major concern across the region.

Selected Development Indicators in Asia

Indicator	1990	1998	2015 Target
Proportion of population living on less than \$1 a day (%)			
South Asia	44	40	22
East Asia and the Pacific	28	15	14
Net Primary enrollment rate (%)			
South Asia	66	73	100
East Asia and the Pacific	96	97	100
Ratio of girls to boys enrolled in primary and secondary schools (%)			
South Asia	65	77	100
East Asia and the Pacific	85	93	100
Under-5 mortality rates (deaths per 1,000 live births)			
South Asia	121	89	40
East Asia and the Pacific	55	43	18
Proportion of births attended by skilled health personnel (%)			
Asia, excluding People's Republic of China and India	29	32	90

Source: International Monetary Fund, Organization for Economic Cooperation and Development, United Nations, and World Bank Group. 2000. *2000: A Better World For All*.

sustainability of growth in the region's resource-based economies is essential for development and poverty reduction. Ensuring the participation of all stakeholders in development decision making and giving them equitable access to assets and opportunities are essential to maximize the benefits of growth and make development broad-based. Equity, especially gender equity, is also a key factor in transforming growth to development and reducing poverty in the region; the region has a long way to go before 50 percent of its population has an equal say and status in the development process. A key element in the fight against poverty over the next 15 years will be the spread of economic freedoms and rights, resulting from the demands of individuals (i) to participate more actively in decisions that affect their lives and interests, and (ii) to benefit from good governance and inclusive development. Thus, civil society will exert increased pressure for more effective, efficient, and responsive government.

Social Development. Accompanying growth must be a comprehensive program of social development that empowers weaker groups in society, and social support programs that respond to the long-term needs of the poor, the aged and the otherwise disadvantaged, as well as the shorter-term needs arising from natural disasters or economic crises. Good governance is necessary to ensure efficient services to the poor, support the development process, increase the efficiency and effectiveness of public investment, and mobilize and regulate private sector resources. A key dimension is strengthening capacity at subnational levels, including provinces, states, urban areas, and local communities where the stakeholders in development live and where development, especially poverty reduction, actually takes place.

Environment. Asia's remarkable growth was accompanied by resource depletion and environmental degradation. Air and water pollution, water scarcity, desertification, and the depletion of natural resources are beginning to have an effect on agricultural productivity; are causing increasingly frequent disasters, such

The region must not only preserve and protect the environment, but also reverse economic degradation, while maintaining robust economic growth.

The challenge is to ensure that the Asian and Pacific region as a whole benefits from the information revolution.

as floods and landslides; and have greatly impaired the quality of life in the region. Demands on the environment and the natural resource base will be even greater in the future. The challenge for the region is not only to preserve and protect the environment but to reverse environmental degradation while maintaining robust economic growth.

Urbanization. The extensive urbanization that has resulted from the region's rapid growth, growing population, and increased rural-urban migration will continue; in another two decades almost half of the region's population will be urban. The result has been growing, heavily congested and polluted urban centers, with deteriorating living conditions and quality of life for large and growing numbers of residents, especially the poor. Managing urbanization will pose a major challenge for the region.

Demographic Shifts. The impact of demographic trends on all aspects of development will continue to be important across the region. During the early stages of the demographic transition the number of working age people increases dramatically. Per capita incomes will go up even without an increase in productivity, as long as the ratio of dependents to workers falls. East and Southeast Asia have to a large extent already reaped the benefits of this demographic "gift" and their challenge will be to deal with an aging population. However, the countries of South Asia have yet to benefit from the demographic transition and the challenge for them will be to ensure that enough growth is generated to employ the larger numbers of young people entering the working age population. The demographic transition also has important implications for social services such as education, health, and child protection.

Information and Communications. Managing information and communications technology poses a new but increasing challenge for ADB's developing member countries (DMCs). The changes taking place present a unique opportunity for the DMCs to leap over some intermediate steps in development, but there is a risk that many countries could be left behind. The challenge is to en-

sure that the region as a whole benefits from the information revolution, that inequalities between countries do not worsen, and that the new technology helps bridge the gaps between the region and the developed world, and within the countries of the region.

Regional Ties. An important factor in Asia's development is the diversity of conditions and circumstances of the region's countries, including differences in their levels of development. The diversity of the region's economies has supported the emergence of intraregional investment, production, and trade linkages and integration, which have had an important role in the transformation of Asia and the growth and development of the participating economies. The strengthening of regional ties can further enhance the region's development and promote economic and social harmony between nations. How best this can be achieved is a challenge that must be addressed.

Private Sector Resources. Mobilizing private sector resources for development is essential at a time when governments in the region face an increasingly complex development agenda and the available resources are ever more thinly stretched. Increasing regional cooperation can help overcome the limited resource and market capacity of individual economies and promote development.

The strengthening
of regional ties
can further
enhance develop-
ment and promote
economic and social
harmony between
nations.

The Global Context

Globalization. The Asia and Pacific region's development will be greatly influenced by global forces and trends. The term globalization has been used to describe many of the recent changes with which the world economy is now coping: the emergence of an increasingly integrated world, expanding trade and investment flows, mobile capital, a changing structure of global production, an increasingly open policy environment, the spread of market forces, and the central role of information and communications technology. These forces are reshaping relations among countries, regions, and social groups, and changing the nature of the development

Globalization is reshaping the relations among countries, regions, and social groups, and changing the nature of the development process itself.

process itself. Globalization creates new opportunities for developing countries, but also involves risks that must be overcome. The information revolution, which provides an example of the opportunities of globalization, is also an example of its risks: globalization can divide as well as integrate.

Capital Flows. The globalization of capital flows has changed the composition of net long-term resource flows to developing economies. Private capital flows have dramatically expanded; accompanying this shift has been a change in the intellectual and institutional foundations of development, emphasizing the central role of markets and the private sector in the development process. The expanding role of private capital and markets has changed the role of government increasingly from that of a provider of goods and services to that of a regulator. Moreover, where market forces result in overly skewed, market-determined distributions of income and wealth, governments can help strike a balance between such forces and social cohesion. Therefore, the role of official finance in development, especially for poverty reduction, continues to be essential in order to supplement private capital.

Commitment to Policy and Institutional Reform. Clearly, strong country “ownership” of policy and institutional reform is essential for development and poverty reduction; a wide range of stakeholders, especially the intended beneficiaries, can and must contribute to the development process; and such participation changes the role and responsibilities of government—in particular, with respect to civil society.

The Aid Environment. The global environment of multilateral development banks (MDBs) has in the past few years been much more competitive, as overseas development assistance (ODA) resources have been shrinking. At the same time, MDBs are being asked to expand their roles and agendas, both to fill the aid gap and to respond through their operations to a widening range of issues in social development, environmental conservation, and governance. Cooperation is thus increasingly

important to ensure the efficient and effective use of resources to support the development process and bring about the desired outcomes. Such cooperation must include all participants in the development process: aid agencies, international financial institutions, civil society, nongovernment organizations (NGOs), the private sector, and all levels of government.

ADB's Response to the Region's Challenges

ADB's long-term strategy is intended to respond to the challenges of poverty and to help achieve the IDGs in the Asia and Pacific region. There has been progress: several studies⁴ show that advancing the IDGs in the Asia and Pacific region is possible. Far more needs to be done, however, and to do it, significant resources will be required in an increasingly complex global and regional environment (Appendix 2). Large amounts of capital will be needed to address the development problems of the region; efficiency in the use of capital will need to be considerably improved; and the use of capital to further social aspects of the development process—for example, to reduce asset inequality—will be an important measure of success. ADB as the region's development finance institution will continue to address these development challenges directly. However, given the scale of the challenge, it must also play a key catalytic role, bringing together other partners to help the DMCs address fundamental problems of development and poverty.

More generally, ADB brings unique strengths and skills to the Asian development environment. As the premier development institution in the region, ADB must utilize and build on its strengths to better serve its DMCs (Appendix 3). The institution has a strong Asian character and is perceived to be sensitive to the region's diverse social and cultural norms. This has allowed it to become a trusted partner with many of its DMCs in help-

ADB must play a key catalytic role, bringing together other partners to address fundamental problems of development and poverty.

⁴ Hammer, L. and F. Naschold. 2000. Attaining the International Development Targets: Will Growth Be Enough? *Development Policy Review* (March) 11–36.

ADB is in a unique position to link the region's DMCs to the larger global context.

ing improve governance structures. ADB has engaged successfully in private sector development; having public and private sector operations within a single institution gives it a unique opportunity to be a broker between the public and private sectors in the DMCs. ADB has demonstrated its ability to help DMCs deal successfully with regional problems and issues through regional cooperation efforts, and to address environmental issues in their planning and implementation of projects.

Headquartered in and focused exclusively on the Asia and Pacific region, ADB includes both regional and nonregional members and is both a multilateral and a regional institution. Being multilateral, it brings global perspectives, experience, and resources into the region. Being anchored in the Asia and Pacific region, ADB has a responsibility to reflect and respond to the region's particular requirements. ADB thus is in a unique position to link the region's DMCs to the larger global context, in support of the development process. Many global issues (e.g., the environment, financial stability, economic and social stability) may be most effectively addressed at the regional level, reflecting evolving global norms and experience, but also accommodating key differences within the region to ensure local relevance and ownership. At the same time, ADB can play an especially effective role in communicating the region's particular development conditions and requirements on the global stage, mobilizing international resources for development and poverty reduction in the region.

The Strategic Agenda

The vision of ADB is an Asia and Pacific region free of poverty. ADB's mission, therefore, is to help its DMCs reduce poverty and improve living conditions and the quality of life. ADB is committed to being an effective partner for the developing countries of Asia and the Pacific in responding to the challenges of achieving sustained and equitable development, improving the quality of life and eradicating poverty. ADB's long-term strategic framework for 2001-2015 is intended to help realize this vision.

Recent Initiatives. ADB has undertaken a number of recent initiatives intended to strengthen its contribution to development in the region. The poverty reduction strategy,⁵ adopted in November 1999, is a landmark document, reflecting the vision of the institution in declaring poverty reduction its overarching objective. It reflects a broad view of poverty as the deprivation of essential assets and opportunities. As a response, poverty reduction is to be addressed through three types of mutually supportive initiatives: pro-poor sustainable economic growth, social development, and good governance. Complementing this, the private sector development strategy,⁶ adopted in March 2000, strengthens ADB's capacity to support the private sector's contribution to development in the region. In addition, ADB has articu-

ADB's mission is to
help its DMCs
reduce poverty
and improve living
conditions and the
quality of life.

⁵ R171-99. *Fighting Poverty in Asia and the Pacific, The Poverty Reduction Strategy of the Asian Development Bank*. October 1999.

⁶ R78-00. *Private Sector Development Strategy*. March 2000.

Investments will be required for the provision of infrastructure and growth-promoting activities.

lated its medium-term strategy for the Pacific DMCs in light of their unique characteristics and ADB's charter mandate to address the problems of its small DMCs.⁷ The agenda for ADB's long-term strategy builds on these recent initiatives.

Strategic Framework. ADB's long-term strategic framework (LTSF) responds to the development challenges of the region and the requirements of the IDGs (see box on page 4) and reflects ADB's evolving role. Investments will be required for the provision of infrastructure and growth-promoting activities, for ensuring sustainable economic growth, inclusive social development, and governance. These investments will need to be accompanied by policy reforms and institution and capacity building. The strategic agenda of ADB addresses these concerns.

Core Strategic Areas. The agenda is divided into three core areas of intervention, consonant with the poverty reduction strategy:

- **sustainable economic growth**, which covers broad-based growth-promoting activities, including investments in both physical and social infrastructure, and an environment program that promotes environmentally sound development;
- **inclusive social development**, which will include investments in social support programs and a policy and reform agenda that will promote equity and empowerment, especially for women and disadvantaged groups; and
- **governance for effective policies and institutions**, which will include support for public sector management at all levels; legal and judicial reform; and improving public accountability. Governance must also promote processes and procedures for more effective participation in decision making to promote equitable and inclusive growth, especially by civil society.

⁷ Memorandum to the Board 105-00. *A Pacific Strategy for the New Millennium*. October 2000.

Crosscutting Strategic Themes. The three core areas will be complemented by three crosscutting themes that will both broaden and deepen the impact of the core areas of intervention:

- **Promoting the role of the private sector in development** builds on the private sector development strategy, recognizes the central role of the private sector and of markets in the development process, and responds to the challenges of mobilizing private sector resources to address the region’s increasingly complex development agenda.
- **Supporting regional cooperation and integration for development** reflects the need to support the development of DMCs through cooperation, to provide wider development options through greater access to resources and markets, to address shared problems that stretch across borders, and to take advantage of opportunities for sharing knowledge and information.
- **Addressing environmental sustainability** includes putting environmental considerations in the forefront of all development decision making and planning in the DMCs and in all ADB initiatives, and not only stopping but reversing the enormous and costly degradation and damage to the environment that have already occurred.

ADB’s proposed strategic agenda will shape the direction of the institution over the next decade and a half. The agenda reflects ADB’s position as the only multilateral bank in Asia with a regional focus and is intended to enhance ADB’s role as a broad-based development institution. Since the development challenges of the region are far beyond the capacities and resources of individual institutions, the strategic agenda is also intended to provide a basis for selectivity and improved efficiency in operations. Since, over the 15-year time horizon of the strategic agenda, conditions in the region and globally will inevitably change, ADB will need the capacity to respond to the evolving capabilities, needs, and demands of each DMC, and to reshape its role

ADB’s proposed
strategic agenda
provides the basis
for the institution
to remain an
effective develop-
ment partner for
all DMCs.

Sustainable per capita growth rates are essential for achieving the international development goals.

and operations accordingly. The proposed agenda is thus a framework for action. It is intended to provide the basis for the institution to remain an effective development partner for all DMCs in the next 15 years and beyond.

Core Strategic Areas of Intervention

Sustainable Economic Growth

Poverty reduction, as ADB's overarching objective, defines the basic direction of ADB's role and strategy in the region. Each DMC's level of development and strategy for addressing poverty will determine ADB's role in most effectively reducing poverty. The region is extremely diverse, and ADB's borrowing member countries range from some of the poorest in the world to those with middle-income economies. The country strategy and program (CSP) that ADB will adopt to promote growth and development in each country will be based on a poverty assessment and will be tailored and prioritized to the particular circumstances and needs of that economy. The CSP will address the ways in which ADB can contribute most effectively to achieving the IDGs. IDG targets for each country will be reflected in partnership agreements signed with each DMC and in the respective CSPs. Sustainable per capita growth rates—3.5 percent to 4.0 percent in Southeast Asia and 5 to 6 percent in South Asia—are essential for achieving the IDGs; they will remain essential to make significant gains in poverty reduction, to address diverse problems of underdevelopment, and more generally to improve the quality of life. Particular attention will be given to ensuring the environmental sustainability of growth and to helping reverse the environmental degradation that has taken place across the region.

Building and upgrading both physical and social infrastructure throughout the developing Asia and Pacific region is a precondition for sustained growth and requires substantial investment. Extensive unfulfilled demand exists across the region, ranging from basic

infrastructure needs in the poorest economies to requirements for sophisticated infrastructure, services, and skills in the more advanced DMCs. This demand will remain substantial over the next 15 years and will require significant resources and large investments.

Public investment will continue to be important in the provision of physical infrastructure, despite the rapidly expanding role of private capital and markets. Many key development areas—all too often those where poverty is most persistent—are perceived by private investors and capital markets as entailing high risks and low financial returns; such areas simply do not attract private investment. The role of the private sector must be supplemented and complemented by that of government in the provision of infrastructure. Because of the fragility of the region’s capital markets, ADB has a role in helping DMCs mitigate high sovereign risk and obtain capital to finance development. Hence, ADB will retain its traditional role of providing finance for public investment in infrastructure. As economies, capital markets, and financial institutions and instruments develop and diversify in the region, ADB will take an increasingly catalytic role in mobilizing private sector resources and in facilitating public-private partnerships in the provision of infrastructure.

Growth that results in widening and pervasive inequalities in income and wealth is neither desirable nor sustainable. Equitable access by all to assets and opportunities and a stake in the outcome are essential factors in transforming growth to development and addressing problems of poverty in the region. Development must be inclusive: its benefits will have to reach all key groups that make up the poor in the region, including in particular women and children; minority groups; the extreme poor in rural areas; the growing numbers of urban poor; and those pushed below the poverty line by natural and man-made disasters.

An important dimension of inclusive development—and a key area of focus for ADB—involves strengthening the participation of all those affected directly and indi-

Equitable access by
all to assets and
opportunities and a
stake in the outcome
are essential to
transform growth to
development.

Investments in the social sectors, such as education and health, are essential for sustained growth and productivity.

rectly by ADB's interventions, beginning at the design stage, in order to ensure that such programs are relevant and feasible. Building the capacity for participation, including participation at the local community level, will be an important element of ADB's promotion of good governance.

Large investments will be required in the social sectors and in social infrastructure, particularly education, health, shelter, and water supply and sanitation, especially in the poorer countries. These investments in areas such as education and health are essential for sustained growth and productivity, as well as for promoting human development and improving the quality of life. A key part of ADB's activities will involve extending the availability of efficient social services, particularly education, to the poor and women. The nature of the required social infrastructure will evolve in response to factors such as changing demographics and technology. For example, in the case of education, basic coverage will remain a continuing challenge in many DMCs: providing the minimum foundation while the proportion of the young remains high and larger numbers of people move toward working age. On the other hand, the challenges of globalization, accelerating industrialization, and rapidly evolving information and communications technology will call for investment in major changes in education systems and curricula to raise levels of technical knowledge and skills.

To maximize the benefits of growth, ADB will focus its resources where the impact on poverty is likely to be greatest. Rural development will remain an important focus of ADB support: the majority of the region's poor are likely to continue to reside in rural areas over the next 15 years, and agriculture and agro-industry will continue to be important to the region's growth.⁸

New infrastructure needs are also emerging. The region's rapid growth, coupled with a growing population and increased rural-urban migration, is resulting

⁸ Asian Development Bank. 2000. *Rural Asia: Beyond the Green Revolution*. Manila.

in extensive urbanization and increasingly congested and polluted cities. This, in turn, is resulting in deteriorating living conditions and quality of life for large numbers of residents. ADB's role in the provision of urban infrastructure, especially to serve the new urban poor and disadvantaged groups, will be an important priority in the next 15 years. Similarly, ADB is committed to supporting information and communications technology to promote development and close the gap between the "information rich" and "information poor". Increased access to information will allow the less privileged in society, and less developed parts of the region, to gain wider options and to play a greater role in determining their future.

Inclusive Social Development

Accompanying growth must be a comprehensive program for social development that puts people first and empowers the weaker groups in society to gain access to assets and opportunities. The scale of the challenge is reflected in the continuing weak social indicators in many countries, particularly for women and girl children, who make up a disproportionate share of the poor, and whose condition is reflected in indicators such as high infant and maternal mortality rates and low access to social services. ADB will support efforts toward equity and empowerment through addressing each of these concerns explicitly in its programs and in the design and implementation of its projects.

Social support programs must respond to long-term challenges such as the needs of the poor, the aged, and the otherwise disadvantaged, as well as to crisis-induced conditions. The 1997 Asian crisis showed how quickly economic and financial shocks can reverse gains made in poverty reduction through many years of rapid and sustained growth. Large numbers of people fell into poverty as a result of the crisis, with no social safety mechanisms in place to respond to their particular needs. A fundamental challenge for the countries of the region is

Accompanying growth must be a comprehensive program for social development that puts people first and empowers the weaker groups in society.

Poor governance
constrains,
retards, and
distorts the general
process of develop-
ment, and has a
disproportionate
impact on the poor
and weak.

to establish effective social support programs. Such programs are needed to address crisis-induced requirements and longer-term (e.g., demographically based) needs, ensure equity in development, and maintain the social cohesion necessary for continued growth. ADB will support the countries of the region in developing and implementing efficient and effective social support programs.

ADB will promote efficient and equitable social development through specific and focused projects and support for policy and reform programs. Such initiatives will include ensuring adequate budgetary allocations for human development, targeting basic social services to the poor, reducing gender discrimination in all development efforts, and promoting the development of social capital. Advocating sound population policies will help address the problems resulting from large populations and high population growth. Encouraging civil society to participate in social development programs to ensure widespread support will also contribute to social development.

Governance for Effective Policies and Institutions

Poor governance constrains, retards, and distorts the general process of development, and has a disproportionate impact on the poorer and weaker sections of society. The most vulnerable victims of inefficient and inadequate social sector spending and poorly designed social development programs are the poor. Inaccessible, unpredictable, and inefficient legal systems that lack transparency also discriminate disproportionately against the poor. Similarly, corruption (a clear symptom of bad governance) often affects the weakest groups in society the most. More generally, the 1997 Asian crisis underscored the dangers of poor governance in both the public and private sectors, and highlighted the increasing importance of effective government regulation of business and financial activity at a time of growing private sector participation in the development process.

DMCs and ADB recognize the essential role of governance in the development process—including (at a

minimum) efficient, effective, and responsive government at all levels. More broadly, governance correlates closely with equitable and inclusive growth and with the spread of economic freedoms and rights. To improve governance, it is necessary to empower communities, individuals, and groups so that they can participate more actively in decisions that affect their lives and interests. Governance is also important for the efficient functioning of the private sector, both through the creation of the necessary conditions for efficient markets and through effective corporate governance. In particular, good governance of financial markets is crucial to the process.

ADB will focus on promoting good governance in partnership with the DMCs, and allowing for the diversity of DMC circumstances and requirements. As part of its agenda for promoting good governance, ADB has developed a medium-term action plan: this plan includes programs to be developed with individual DMCs, and regional initiatives that will focus on governance issues common to the region or to groups of DMCs.⁹ Four elements of good governance define the focus and direction of ADB's initiatives in this area: accountability, participation, predictability, and transparency. Consistent with these four elements, ADB will undertake, at individual country and regional levels, a wide range of activities relating to core government functions and public sector management, such as public expenditure management and public administration reform. ADB will also address other key areas, such as legal system reform; improving public accountability; strengthening the framework for corporate governance; improving governance at the subnational level; and improving service delivery, particularly for the poor.

The trend toward greater decentralization of government services and participation by stakeholders has increased the need for building capacity and strengthening institutions at the subnational levels, including

To improve
governance, it is
necessary to
empower commu-
nities, individuals,
and groups so
that they can
participate in
decisions that
affect their lives.

⁹ R229-00. *Promoting Good Governance: ADB's Medium-Term Agenda and Action Plan*. February 2000.

Strengthening the participation of stakeholders in the development process will improve efficiency in implementing ADB interventions.

provinces, states, municipalities, and local communities. This is essential if decentralization is to achieve its desired purpose of greater public efficiency and more inclusive development. A core element of ADB's governance-related activities will be enhancing institutional capacity and capability, including government and public institutions at the national as well as subnational levels, such as provincial and municipal administration, local institutions, and community-based organizations.

One important area where ADB has developed considerable expertise is the governance of the region's rapidly growing cities and municipalities. With continuing population pressures on urban areas, the development and administration of the necessary urban physical and social infrastructure are essential to maintain an acceptable quality of life, maintain social harmony, and address the needs of the rapidly growing numbers of urban poor. The expertise ADB has developed in dealing with governance issues for urban development will be broadened and applied to addressing problems in all sectors.

Capacity building will be a key focus of ADB's general country assistance strategies, and will be built into specific ADB initiatives in all DMCs. This emphasis will include ADB's support for the involvement of nongovernment organizations (NGOs) and community-based organizations in the design and implementation of projects and programs and the delivery of social services. Strengthening the participation of stakeholders in the development process will improve efficiency in the implementation of ADB interventions.

Crosscutting Strategic Themes

Promoting the Role of the Private Sector in Development

The remarkable development of many Asian economies has been driven to a large extent by private investment, both domestic and foreign. However, there is great diversity among countries, and the role of the private

sector in promoting development in many countries in the region has been limited. At a time when governments are faced with an increasingly complex development agenda, and when resources available to them are becoming more constrained, private participation will release scarce resources from public budgets. The private sector thus has an essential and increasingly important role in the development process, both on its own and through public-private sector partnerships, including those for the provision of physical and social infrastructure. However, the effective contribution of the private sector to development in general, and infrastructure provision in particular, has been hampered by institutional shortcomings, weak corporate governance systems, unclear rules and regulations, and corruption, all of which drive up the costs and risks of doing business. Therefore, better governance is necessary to ensure the contribution of the private sector to the development process.

Because ADB has both public and private sector operations within the same institution, ADB is uniquely positioned to broker, through its lending and nonlending operations, public and private sector linkages to support the development process. In this activity, ADB will put particular emphasis on strengthening the capacity of the DMCs to (i) create an effective enabling environment for the private sector—a long-term process—and (ii) encourage the development of innovative public-private partnerships. ADB will help its DMCs design policies and reforms that will support private sector development and promote private sector activity that is socially responsible and consistent with a pro-poor agenda. Responsive to particular conditions and needs, ADB will assist individual DMCs in addressing issues such as strengthening commercial legal frameworks, reforming taxation systems, supporting efficient and competitive markets, and establishing environmental and labor standards. The Asian crisis of 1997 demonstrated the necessity for properly functioning regulatory frameworks for the financial sector and for corporate governance—two areas of particular interest in ADB’s private sector activities.

The private sector has an essential and increasingly important role in the development process, on its own and through public-private sector partnerships.

ADB is uniquely positioned to broker public and private sector linkages to support the development process.

ADB will also help broker effective partnerships between public and private investors in countries and sectors where there is a basis for commercial participation, but where the private sector may be reluctant to invest on its own. Effective public-private sector partnerships allow the sharing of risks and costs in the development process, particularly in the provision of infrastructure. Promoting such partnerships in agriculture and the rural sector, where the greatest concentration of both poor people and private sector production occurs, can make a significant contribution to development in general and to poverty reduction in particular. ADB's activities will include (i) helping finance the public investment portion of such initiatives, (ii) assisting in building the long-term capacity of governments, (iii) developing effective partnerships with the private sector, and (iv) providing risk mitigation services to private investors.

In implementing its strategic agenda, ADB will put particular emphasis on strengthening the domestic private sector in the countries of the region, an especially important task in countries with emerging private sectors, such as economies in transition. Strengthening entrepreneurship, small and medium enterprises, and the informal sector, all major sources of employment and income, will contribute directly to poverty reduction. Many countries of the region have high domestic savings rates; the challenge is to create policies and institutions that mobilize these savings for productive investment to support development. In particular, ADB will support small-scale enterprises and the informal sector, in both urban and rural areas, through microfinance programs and other appropriate means.

Although private sector operations are a very small part of ADB's total portfolio at present, involvement with the private sector is expected to increase substantially in the years to come, as a consequence of the increasingly important role of the private sector in the development process. For ADB's private sector operations to have a meaningful and relevant impact, it must undertake a critical mass of private investment. To support this involvement, there will be a greater integration of

ADB’s public and private sector activities. With the great diversity of conditions and needs in the region, the general elements of the strategy to promote the role of the private sector in development will be tailored to the particular conditions and needs of DMCs in country-specific strategies and programs.

Supporting Regional Cooperation and Integration for Development

Regional cooperation enhances and amplifies domestic efforts at development and widens the range of options available to the participating countries. This is an area where ADB has unique experience and strengths, which will be used to develop new initiatives across the region. The challenges of regional cooperation involve three related dimensions: (i) supporting the development of participating countries through cooperation; (ii) providing, protecting, and conserving key regional public goods; and (iii) ensuring regional economic and social stability. Many individual economies experience supply- and demand-side market and resource constraints on their development capacities. Regional cooperation expands access to key resources and markets, providing wider development options for the participating countries. This is especially important for countries with limited access to markets and resources, for the poorer areas of some countries, and particularly for Pacific island DMCs.

Regional cooperation includes addressing the problems associated with regional public goods, those activities and outcomes that have impacts across borders: for example, environmental issues such as shared watershed management or pollution from forest fires, health-related issues such as the transmission of HIV/AIDS, and social concerns such as trafficking in drugs and people. However, while national governments provide the institutional framework for correcting market failures in the area of traditional public goods, no corresponding institution is responsible for regional public goods. Consequently, cooperation among countries is clearly needed to ensure that such regional issues are addressed

Regional cooperation enhances and amplifies domestic efforts at development and widens the range of options available to participating countries.

ADB is becoming a key resource to DMCs for analysis and information on their economic performance.

collectively, so as to produce the most effective outcomes. Ensuring regional economic and social stability is a particular type of regional public good that is fundamental to the development of the region and to the challenge of reducing poverty; unless economic and social harmony and stability are maintained within countries, and mutually supportive and cooperative relations exist among countries, regional development and, hence, poverty reduction is at risk. ADB will emphasize the importance of regional economic and social stability as a focus of economic cooperation and integration.

ADB supports a number of broad-based regional and subregional cooperation initiatives to accelerate the development of participating countries, of which the Greater Mekong Subregion initiative is the most prominent example. ADB has also led regional cooperation efforts in South Asia. Subregional programs often involve poorer regions of individual countries (e.g., Mindanao in the Philippines, Yunnan in the PRC), lagging economies (e.g., Cambodia, Lao People's Democratic Republic, Central Asian republics, and isolated small Pacific island countries), so they have potentially important implications for poverty reduction; they also contribute to regional stability. As a key priority in enhancing the development options in the region, ADB will continue its support for subregional cooperation and economic integration; in fact, such support must increase in importance over the next 15 years, given the dynamics of regional and global integration.

ADB has an important role in the provision of a wide range of regional public goods in areas such as environment, health, and finance. With interdependencies and economic integration growing among the countries of the region, this role will increase in importance. A particular type of regional public good in which ADB is playing a significant role is the sharing of knowledge and information to strengthen economic management. Through the Regional Economic Monitoring Unit's initiative, for example, ADB has been assisting the Association of Southeast Asian Nations (ASEAN) in monitoring the economic recovery of its member states since the 1997 economic

crisis. ADB is also becoming a key resource to DMCs of analysis and information on their economic performance.

Building on this initiative, ADB will expand the scope of cooperation to the exchange of information on the “best practices” in development and poverty reduction. Similarly, ADB, in collaboration with the Asian Development Bank Institute, will support cooperation between regional research centers and educational institutions in areas of common interest. Research and educational institutions will also be made partners in the creation and development of policy programs for the DMCs. ADB has been collaborating and coordinating with the Asia Pacific Economic Cooperation organization in several areas of regional interest, such as trade issues, financial sector concerns, and corporate governance; this activity will be enhanced. In the context of regional sharing of knowledge and information, ADB will place special emphasis on regional cooperation in and through information and communications technology, in order to help reduce the growing gap between “information rich” and “information poor” economies and groups.

For too long, the environmental impact of development was ignored; today the region is paying a steep price for that neglect.

Addressing Environmental Sustainability

Asia’s environmental record has come nowhere near matching its economic performance in the past 30 years. In many parts of the region, natural resources are being depleted at a frightening rate, and the damage to fragile ecologies is alarming. Overfishing, overgrazing, deforestation and the intensive farming of marginal agricultural lands are causing air and water pollution, water scarcity, and desertification.

For too long, the environmental impact of development was ignored in most parts of Asia and the Pacific; when policymakers did try to adopt regulations and standards, they were all too often badly designed, inadequately implemented, and easily flouted—a major governance issue. Environmental considerations were viewed as an adjunct to or afterthought of economic and development policymaking. Today, the region is paying a steep price for that neglect. Environmental degrada-

The poor are disproportionately affected by environmental degradation.

tion constrains agricultural and industrial productivity; causes increasingly frequent disasters, such as floods and landslides; and has become a serious threat to the region's prospects for development and poverty reduction. It also constitutes a potentially lethal assault on the quality of life of all Asians, particularly the poor. These effects can only worsen as industrialization and urbanization accelerate and expand.

While pollution, in the form of dirty air and water and crowded, filthy cities, is often a byproduct of economic growth, environmental degradation is even more strongly associated with poverty. The poor are disproportionately affected by the "brown" issues of air and water pollution in cities, because they generally reside in more polluted areas and are less able to protect themselves from environmental health hazards. "Green" issues, such as deforestation, depletion of natural resources, and land degradation, also impact heavily on the poor, who generally find themselves occupying marginalized, denuded, and less productive lands and hence deplete resources in a desperate effort to gain a livelihood. Similarly with "blue" issues, such as pollution of lakes, waterways, and oceans that spoil fisheries and fresh water and marine resources: here again, the livelihood and quality of life of the poor are disproportionately diminished.

For these reasons, environmental considerations are a major crosscutting strategic theme of ADB's strategic agenda. The environmental sustainability of the economic growth necessary for reducing poverty and meeting the IDGs has to be in the forefront of all decision making and development in the DMCs and in ADB initiatives at all levels. Just as poverty reduction will be integrated into national development strategies, so sector development policies and regional plans must include environmental protection to ensure effective resource management within each DMC and across the region.

Environmental degradation not only has to be stopped, but reversed in key areas, and the links between poverty and environmental degradation have to be broken. The poor should be given a stake in the man-

agement of the environment and natural resources. The price of environmental mismanagement to industry and the society at large is enormous: it is estimated that correcting past unsustainable development might cost as much as \$175 billion per year in 2004, rising to about \$250 billion per year by 2025.¹⁰ To begin with, policy and institutional approaches to environmental issues must be changed to make a “pollute now, pay later” approach unattractive. Delays in taking action will only increase the price to be paid later.

ADB’s programs must be designed to promote environmentally sound development without compromise. In addition to advocating the integration of environmental policies and objectives into national development policies and objectives, ADB must ensure, in conjunction with DMCs, that environmental policies adopt an integrated resource management approach. The recent water policy adopted by ADB¹¹ takes such an integrated approach; the forestry and energy policies, which are under review, will do the same. ADB will advocate a greater reliance on economic instruments and incentives to address environmental issues, combined with regulatory controls. The advocated environmental policy will address specific market failures, such as open access resources, and government policies that exacerbate environmental problems, such as subsidizing the extraction of scarce resources.

Environmental problems are long term and require long-term solutions; countries must take action today to ensure a better environment a generation from now. Time is not on their side: if Asia does not take the appropriate measures immediately, at a minimum the gains derived from growth will be eroded and support for growth-oriented policies will be undermined. ADB is committed without reservation to the goal of better environmental management and protection of the region’s ecology and resources.

Environmental
degradation not
only has to be
stopped, but
reversed in key
areas, and its links
to poverty broken.

¹⁰ Asian Development Bank. 1997. *Emerging Asia: Changes and Challenges*. Manila.

¹¹ R230-00. *Water for All: The Water Policy of the Asian Development Bank*. January 2000.

Implementing the Strategy

A set of operating principles must guide the implementation of ADB's strategic agenda to ensure a strong country focus, the prioritization of operational programs, and ultimately selectivity in operations. The proposed strategic development agenda is broad; selectivity and prioritization are needed to adjust the agenda to ADB's financial and human resources while best responding to the needs of the DMCs. Based on a national poverty reduction strategy developed by each DMC, the operating principles must guide the preparation of ADB's individual country assistance strategies as reflected in the country strategies and programs (CSPs). While selectivity based on the strong country focus is required, institutional flexibility will also be important: during the implementation of the strategy, the needs of the DMCs will evolve, and ADB must respond to these changing needs, as well as to the changes in regional and global conditions. This underscores the necessity for ADB to become a "learning organization," able to derive knowledge rapidly from its experience and the information generated by its economic and sector work.

The implementation of the strategy and its operating principles will require over time the review of existing assistance modalities and instruments, as well as internal working practices and procedures. Finally, ADB's organizational structure and the human resources requirements need to be reviewed so that the institution can adapt more effectively to the delivery of a large and complex strategic agenda.

The DMCs' needs will evolve and ADB must respond to these, as well as to changes in regional and global conditions.

ADB must be a trusted partner to its DMCs in order to engage in constructive development and policy dialogue and to target its programs effectively.

Strategic Operating Principles

Ensuring Country Leadership and Ownership of the Development Agenda

DMCs must exercise leadership and ownership of their own development agenda and priorities by demonstrating initiative, commitment, and accountability. ADB's Asian character, and its knowledge of and exclusive focus on the Asia and Pacific region, should enable it to be sensitive and supportive in adherence to this strategic operating principle. ADB must be a trusted partner to its DMCs in order to engage in constructive development policy dialogue and to target its assistance programs effectively. In particular, ADB must strongly support its DMCs in preparing sound long-term national poverty reduction strategies. To achieve the country leadership principle, ADB will forge much closer relationships with its DMCs by signing a partnership agreement for poverty reduction with each one. It will clearly signal the strategic areas where it can be a primary source of expert advice to the DMCs in their development process and fight against poverty. The strategic agenda provides the broad directions where ADB has or will develop core competencies. The implementation of this agenda, through the preparation of country-focused CSPs and through ADB's lending and nonlending activities, will reflect the particular circumstances of each DMC.

Taking a Long-Term Approach to Development Assistance

In pursuit of the common goal of poverty reduction, ADB will maintain an effective long-term presence in the sectors and areas prioritized through the CSPs. Long-term approaches imply selectivity; selectivity, in turn, will have to be defined in the context of the CSPs, which will set long-term targets and performance benchmarks against which to measure development impact. Thus, ADB's operations, guided by the strategic agenda and by agree-

ment with each DMC, will be far more selective than previously, focusing on sectors and areas where ADB has clear strengths and the resources to maintain an effective long-term program in a country. Taking a long-term approach will require stronger commitment by staff members and in-depth knowledge of sector issues. Such knowledge will require a strong analytical capacity and economic and sector work that is expanded, more intensive, but better targeted and focused than in the past.

Enhancing Strategic Alliances and Partnerships

ADB will strive to remain the premier development institution in the Asia and Pacific region. Toward this end, and in the fight against poverty together with the DMCs, ADB will work closely with other development partners, to complement and build on one another's strengths. Based on its strategic agenda, ADB is ready to assume a lead role among partners in some sectors and in particular DMCs, but in a spirit of openness and complementarity with all other development partners.

In selecting sectors and areas where ADB proposes to maintain a long-term focus and relationship, ADB will strongly emphasize, and is committed to, country-based coordination processes, such as the comprehensive development framework or similar partnership principles, depending on country circumstances. Within the framework of country ownership, such enhanced coordination will ensure greater selectivity and focus on sectors and areas where development partners have strengths and advantages, or complementarities. While borrowing countries generally do not favor a predetermined division of labor that limits their choices about which institution to approach, operationally oriented cooperation agreements between MDBs operating in the Asia and Pacific region can serve as useful general guidelines, setting out the principles of closer collaboration and defining areas of collaboration, complementarity and leadership. In macroeconomic and financial policy reforms as well as in regional economic and financial monitoring

ADB is ready to assume a lead role in some sectors and DMCs, but in a spirit of openness and complementarity with all other development partners.

ADB will seek to expand its partnership agenda by developing ways of working closely with NGOs, civil society, and the private sector.

activities, ADB will coordinate its programs with the International Monetary Fund. In the context of its poverty reduction strategy, ADB is committed to partnership agreements with all of its DMCs. These agreements will be based on national strategies for poverty reduction prepared by the DMCs. Where the DMCs request ADB assistance in undertaking poverty analysis and formulating a national poverty reduction strategy, ADB will work closely with development partners—in particular, the World Bank and the United Nations Development Programme—to avoid duplication and ensure collaboration and complementarity. Consistent with its strengths and the particular needs of the DMCs, ADB is prepared to take a lead role in poverty analysis in specific DMCs.

ADB will seek strategic alliances in regional or sub-regional cooperation with aid agencies, including United Nations agencies, the World Bank, and bilateral partners. ADB will also seek to expand its partnership agenda by developing ways of working closely with NGOs, civil society, and the private sector in its socially responsible role. Each potential partner can learn from the others' strengths and knowledge, and ADB can thus enhance its development impact. Where appropriate, partnerships may involve policy dialogue and financing, as well as project design and monitoring of development impact. Complementarity with all stakeholders in the development process, in the ultimate interest of the DMCs, will be a main guiding principle of ADB activities.

Measuring Developmental Impact

The measure of success for ADB's strategy and activities is its impact on development in the region. To help assess this impact, ADB will develop performance benchmarks against which to measure the outputs of its assistance programs. The activities that ADB undertakes have short-term, medium-term, and long-term outputs and outcomes; keeping a long-term perspective is essential if the impact of ADB assistance on the achievement of the IDGs is to be maximized. To ensure that the

long-term focus of ADB programs is maintained, the impact must be evaluated systematically and the resulting feedback used to continually improve and enhance the effectiveness of ADB interventions.

Monitorable benchmarks and indicators will be provided in the CSPs that will determine the country assistance programs and partnership agreements ADB and the DMCs will undertake to combat poverty. These benchmarks and indicators will be assessed and evaluated against long-term goals and outcomes, including those specified in the IDGs. With an expanding and diverse portfolio implicit in the strategic agenda, and implemented in a dynamic and complex environment, an effective development performance monitoring system is essential to allow up-to-date feedback on the implementation and impact of ADB activities. This is a key operational basis of ADB as a learning organization and will allow ADB, together, with DMCs and development partners, to adjust programs to ensure quality and achieve greater impact.

An effective development performance monitoring system will allow up-to-date feedback on the implementation and impact of ADB activities.

Operating Modalities

To implement the strategic agenda and translate the strategic operating principles into concrete forms of assistance for its DMCs, ADB will have to review operating modalities and procedures. This includes innovations in modalities that will involve doing different things, as well as doing things differently.

Cluster Approaches. The development of cluster approaches to designing and operating assistance programs will support the implementation of ADB's strategic operating principle of taking a long-term approach and thus ensuring selectivity and greater sector focus in each DMC. The cluster approach involves sequencing lending and nonlending assistance to a particular sector in a country to achieve a defined set of long-term goals. The components of the CSP assistance clusters will be defined jointly with each DMC, together with benchmark performance indicators and long-term de-

ADB will formulate
new mechanisms
and instruments to
work more closely
with a wide range
of development
partners.

velopment goals. Implementation of the cluster approach will require strong government ownership of the programs, and hence will contribute to the maximum efficiency of assistance programs and to the achievement of higher development impact.

Sectorwide Approaches. ADB will increasingly pursue sectorwide approaches (SWAPs) to programming assistance, which essentially mean budget support to a sector; such approaches can be undertaken as institutional and policy frameworks improve in a sector and reporting and monitoring mechanisms are put in place. SWAPs entail some uncertainty in the relationship between financing, implementation, and impact, as they involve more fungible forms of financing. Therefore, such approaches require improved and appropriate financial and performance monitoring, in line with ADB's strategic operating principle of measuring developmental impact. They also entail the development of new financial mechanisms and instruments. SWAPs have important advantages over traditional project approaches: they reduce the large administrative burden of proliferating projects in individual countries, and they are likely to increase development impact. To best contribute to a country's development efforts, a SWAP requires the participation and coordination of all sources of assistance to the sector. The effective and efficient implementation of a SWAP can also be a measure of the success of a country's development efforts in that sector.

New Partnership Modalities. To support the goal of instituting development partnerships in the interest of the DMCs, ADB will formulate new mechanisms and instruments to work more closely with a wide range of development partners. While cofinancing mechanisms with multilateral and bilateral agencies are relatively well established, modalities for working with NGOs and civil society groups have yet to be developed fully, and will be given priority in the implementation of the strategy. Similarly, ADB will develop mechanisms for direct support for local and regional governments, including cities and mu-

nicipalities, as well as for community-based organizations.

The availability of a grant-based technical assistance modality is a key strength of ADB. To improve its effectiveness, ADB will develop better mechanisms and procedures for working with development partners within the framework of such technical assistance, in particular, for supporting improved governance and capacity building. The procedures and modalities for cooperating more closely with a variety of agencies will be expanded, and ADB will broaden the scope of cooperation beyond traditional cofinancing. In this context, ADB will seek to develop, in partnership with bilateral sources of assistance and private foundations, joint financing mechanisms, such as trust funds, to better target poverty interventions.

DMC Ownership of Technical Assistance. The efficiency and impact of the substantial grant-based technical assistance ADB provides to DMCs could be greatly improved by strongly enhancing DMC ownership of these diverse programs, which range from policy support to institution and capacity building. This could be another way to advance ADB's strategic operating principle of country ownership. ADB will develop procedures to address this issue, including the use of long-term advisory expert positions in the DMCs, and much wider participation of stakeholders in the design and implementation of technical assistance. ADB will also make greater use of regional and national expertise for institutional capacity building.

Regional Funding Mechanisms. Regional cooperation is a crosscutting theme of ADB's strategic agenda. To date, such cooperation has been largely financed out of individual country assistance programs. Regional cooperation involves, indeed is premised on, significant externalities beyond individual country borders, and responds to regional public goods issues. ADB will therefore examine and develop new funding mechanisms for such activities, including the establishment of regional cooperation funding facilities. These will require inno-

The efficiency and impact of grant-based technical assistance could be greatly improved by enhancing DMC ownership.

New partnerships
for DMCs and the
private sector
could include
mechanisms to
access private
sector resources
to supplement
government
investment.

vative financial arrangements, because the distribution of benefits and costs and the sharing of responsibility for loan repayment are complex issues. The development and effective operation of such facilities are keys to the institution's successful support for regional cooperation in the future.

New Private Sector Modalities. In keeping with the strategic crosscutting theme of engaging the private sector more comprehensively and effectively, ADB will assist governments in finding new ways of working in partnership with the private sector. This could involve exploring ways and mechanisms to access private sector resources to supplement government investment. Such new procedures and instruments will be developed in line with changes in financial market conditions and instruments.

Organization and Human Resources

The implementation of the strategic agenda and strategic operating principles must be anchored in a strong and supportive ADB corporate culture shared by its shareholders, Board of Directors, management, and staff. It will also require corresponding changes in the institution's organization and in the ways it does business.

The strong country focus and the long-term approach advocated by the strategy imply that decisions should be taken as closely as possible to the action, a move that is also essential to build a responsive, learning organization; the focus and approach should also ensure the quality and effectiveness of ADB operations in a complex and changing environment. Country focus must be supported by an appropriate organizational structure and processes for operational decision making. In this context, the fundamental principle of DMC ownership must also be reinforced. The implementation of the new resident mission policy¹² initiated in 2000 is an important step in this direction, and will result in much closer re-

¹² R57-00. *Resident Mission Policy*. January 2000.

relationships with the DMCs and a broader stakeholder base. Implementing the policy will also help carry out the subsidiarity principle, that the lowest institutional and administrative level should assume a primary role in development issues. ADB's organizational structure must also be adapted to support the main thrusts of the strategic agenda and maximize efficient and effective implementation of the agenda.

To respond to evolving challenges, ADB must become a learning institution maximizing the use of its vast knowledge and drawing upon resources, skills, and expertise both inside and outside the organization. It must develop the capacity to learn quickly from its own operational experiences and those of its development partners, and to disseminate such experience in the form of "best practices" among DMCs, ADB staff, and the development partners. A key area of organizational change involves the establishment and maintenance of the knowledge base necessary for the implementation and adjustment of the strategic agenda and of ADB operations over time. Drawing on and bringing together the existing and evolving expertise of ADB staff, internal networks can be established as nodes of knowledge, information, and expertise in particular areas. Knowledge sharing and internal synergies are key elements in the establishment of such nodes.

To extend the reach of the institution and to tap into a virtual pool of skills and knowledge, ADB, together with the Asian Development Bank Institute, should establish and maintain networks of experts. As ADB becomes more involved in long-term assistance approaches and strategies, it will need an ever greater depth of knowledge about the sectors entailed; to gain that knowledge, ADB will require improved economic and sector work and a comprehensive vision of the key development and poverty reduction issues in each DMC. This will call for high quality, committed staff, and flexibility in adjusting ADB's skill mix over time. The resident missions in the DMCs must become important sources of organizational expertise for

ADB must develop the capacity to learn quickly from its own operational experiences and those of its development partners.

In an age of rapid information, ADB has to project itself to all its constituencies as being modern, flexible, creative, and efficient.

key development issues; to that end, their staff will have to network extensively with headquarters staff.

To support the strategy, ADB will continue to adjust its internal business processes to make them more responsive to the needs of the DMCs, reducing response time and enhancing country ownership. At present, business processes are designed around project processing, with an overemphasis on procedure and documentation. Processes that enhance quality, efficiency, and transparency in resource use and that deliver better outcomes will be developed. Adaptability, flexibility, and efficiency will be key considerations in the review of business processes.

The globalization of information is affecting ADB's operations in fundamental ways, and this trend will sharply accelerate in the future. In order for ADB to maintain its position as the premier development institution in Asia, it will have to take further steps to raise and strengthen its external profile. In an age of rapid information, ADB has to project itself to all its constituencies as being modern, flexible, creative, and efficient. It will have to be open and transparent in providing information on its operations and activities. To this end, it must utilize all the resources at its disposal, harness modern technologies, and maximize use of its representative offices and resident missions.

Resources for the Strategy

The fight against poverty and the huge development challenges facing Asia and the Pacific in the achievement of the IDGs will require the mobilization of considerable financial resources over the next 15 years. To an important extent, these resources will have to come first from the people and the governments of the DMCs themselves. Robust, sustainable growth will be necessary, hence policies to accelerate inclusive economic growth need to be reinforced; domestic resource mobilization, including tax efforts, must be enhanced; and the management and prioritization of public investment and expenditure must be widely improved.

The development experience of the Asia and Pacific region has shown that the private sector can contribute significantly to the generation of resources for development. To mobilize such efforts, reforms to remove market distortions, strengthen public institutions and governance, and develop efficient and transparent financial and capital markets must be pursued further at various levels throughout the countries of the region. With a conducive environment in place, external capital will supplement domestic private resources. However, access to international capital markets remains very unequal, being concentrated in few countries and, within these countries, only in more advanced regions. For the lower income countries, access to private external capital will remain very limited, while for middle and higher income

Over the next decade and a half, resources for development in the Asia and Pacific region, both public and private, will fall far short of requirements.

The role of a regional development bank such as ADB will remain essential for mobilizing and catalyzing resources for the development of the DMCs.

countries, access will fluctuate and remain volatile. For all countries (particularly the lower income countries, but also middle income countries), maturities and costs might not be suited to the large demands for longer-term development programs. Hence, over the next decade and a half, resources for development in the Asia and Pacific region, both public and private, will fall far short of requirements.

The role of a regional development bank such as ADB will remain essential for mobilizing and catalyzing resources for the development of the DMCs, with the nature of this role varying with the level of development and capabilities of the individual countries. This LTSF outlines how ADB intends to address this continued role. Financial support for a sustainable and inclusive development process, together with strong, effective governance policies and institutional reforms, is the core of the strategy. This support will be supplemented by promoting private sector development, by utilizing ADB's unique mandate, experience, and capacity for promoting regional cooperation; and by efforts to enact environmentally responsible policies and reverse the worst effects of environmental degradation.

The availability of concessionary sources of financing through ADB will remain essential throughout the duration of the long-term strategy for the poorer DMCs, those with no access or limited access to foreign private funds, and weak domestic private sectors. Such financing will enable these poorer DMCs to respond to their development needs and help them significantly reduce poverty, while avoiding the burden of excessive debt. For middle income DMCs, DMCs with limited international capital market access, and even for more advanced DMCs, ADB's role in financing development and catalyzing development finance will remain crucially important. In addition, ADB can help smooth fluctuations and volatility in access to international capital markets and provide longer-term finance for physical and social investment with long gestation periods. In these countries, ADB will retain the roles of mitigating sovereign

risk and supporting more advanced policy and institutional reforms. Flexible degrees of intervention based on development levels and policy and institutional capacities are central to ADB's LTSF. In the Asia and Pacific region, ADB is in a unique position to provide such needed combinations of financial intermediation and nonlending services.

ADB's long-term strategic agenda is ambitious, but it is flexible and adapted to the perceived needs of its DMCs over the next decade and a half for achieving the IDGs and furthering their development. For ADB together with the DMCs to realize this ambitious agenda, and for ADB to play a lead regional role and have the required developmental impact, ADB's resources and capital base will need to be sufficient and to be reviewed over the duration of the LTSF. ADB's envisaged expanded role in private sector operations over the duration of the strategy will also require particular attention to resource availability. Paramount considerations will have to be the effective role of ADB in the region, its developmental impact through the implementation of the long-term strategy, and, importantly, the financial soundness of the institution. Without adequate resources, ADB's strategic agenda will need to be significantly cut back and narrowed. Its catalytic role in directly and indirectly mobilizing development finance for the DMCs will have to be substantially reduced, as will its support for policy reforms and capacity building. If ADB is to remain an effective institution, and the major regional development partner of the developing countries of the Asia and Pacific region, it must be supported by all its stakeholders over the time horizon of the LTSF.

The delivery of the LTSF also implies diverse and intensified demands on ADB's internal resources in the next 15 years. ADB's new strategic agenda comprises highly resource-intensive activities. The much higher degree of complexity of ADB's development interventions and closer engagement with stakeholders in the DMCs will require corresponding administrative financial and staff resources to maintain and increase the quality of

Paramount
considerations will
have to be the
effective role of
ADB, its develop-
mental impact,
and its financial
soundness.

Maintaining ADB's financial soundness will be essential to fulfill the long-term strategy, meet poverty reduction targets, and achieve the IDGs.

services and ensure maximum development impact. To maintain a flexible pool of highly qualified staff and remain competitive with the private sector will require increasing resources. Appropriate levels of administrative budgets will be needed to strengthen the operations of resident missions to deliver the strategic agenda, while maintaining strong core capabilities at headquarters. Some of these changes have already been implemented, but they will continue and are likely to expand over the duration of the strategy. ADB has always been efficient and careful in the use of administrative resources. However, delivering the strategic agenda without adequate internal resources, both staffing and financial, will have an adverse impact on the quality of the institution's activities and its development impact, and ultimately will constrain DMCs' development in general and poverty reduction in particular.

The demand for grants to support much enhanced capacity building activities and to address regional public goods issues will also increase, putting further pressure on resources. ADB will need to look at these resource requirements, and actively seek new and/or additional sources of financing for such activities, in particular through partnerships with bilateral donor agencies and private foundations and entities within and outside the region. Although there is some potential for substitution, such as lending versus grants to finance capacity building, these options are limited. Productivity increases and greater efficiency will also be sought, partly through improved processes and organizational changes. Hence, there will be increasing competitive demands on the use of ADB's net income, including demands to increase reserves. Maintaining ADB's financial soundness in the face of increasing demands on its resources will be essential to fulfill the strategy, meet the poverty reduction targets set by the DMCs, and achieve the IDGs. Meanwhile, ADB must maintain high internal efficiency and effectiveness.

The two major elements of ADB's financial soundness are the strength of shareholder support and its

stand-alone financial position. These two elements complement each other and jointly determine the cost-effectiveness of ADB's financial intermediation; both are closely watched by rating agencies, underwriters, and investors. The international capital markets demand clear and adequate shareholder support and a strong financial position in order for them to provide the necessary funds to ADB for its development agenda.

The two major elements of ADB's financial soundness are the strength of shareholder support and its stand-alone financial position.

Next Steps

The Asian Development Bank is facing formidable challenges in working toward its long-term vision of an Asia and Pacific region free of poverty. ADB is committed to helping its DMCs achieve the IDGs and will work in collaboration with its member countries and with other development partners to help achieve these goals. Three core strategic themes, supported by three crosscutting themes and reflecting the institution's particular strengths and experience, have been defined in this strategic framework as the focus of ADB's lending and nonlending activities. The core strategic themes are (i) sustainable economic growth, (ii) inclusive social development, and (iii) governance for effective policies and institutions. The crosscutting strategic themes—(i) promoting the role of the private sector in development, (ii) supporting regional cooperation and integration for development, and (iii) addressing environmental sustainability—reinforce and extend the core strategic themes.

The LTSF provides the broad direction for ADB over the next 15 years. While it is very difficult to predict what changes may occur in the region over this period, the strategy has been designed to provide focus, but to allow sufficient flexibility and adaptability to address the diverse and changing needs of the region. To implement the strategic agenda over the medium term, a number of concrete actions and steps need to be taken. To measure ADB's contribution toward the IDGs, the achieve-

ADB faces formidable challenges in working toward its long-term vision of an Asia and Pacific region free of poverty.

Ultimately, the effectiveness of ADB's role will be determined by the support and continuing commitment of its shareholders.

ment of which goes far beyond the capacities of any single institution, interim benchmarks and development targets must be defined. More generally, to support implementation and allow for flexibility in the long-term strategy, medium-term strategic frameworks (MTSFs) that cover segments of the LTSF will be formulated starting in 2001. Each MTSF will define specific changes in business processes and in assistance modalities that will be necessary to implement the long-term agenda. The MTSFs will also guide the formulation of individual country strategies and programs over the medium term, as well as direct the overall annual work and budget planning of the institution. Details of the action plan for implementing the LTSF are given in Appendix 4.

Ultimately, the effectiveness of ADB's role in supporting development and poverty reduction in the Asia and Pacific region will be determined by the support and continuing commitment of its shareholders to the institution. The LTSF, by defining ADB's role in the region, provides the basis for such support and long-term commitment.

Appendixes

Number	Title	Page	Cited on page
1	Senior External Advisory Panel	52	(vii)
2	Challenges for the Asia and Pacific region	53	(9)
3	The Changing Role of the Asian Development Bank	61	(9)
4	Action Plan for Implementing the Strategy	64	(50)

Appendix 1.

SENIOR EXTERNAL ADVISORY PANEL

Montek Singh Ahluwalia, Member, Planning Commission, Government of India

Rawdon Dalrymple, Visiting Professor in the School of Economics and Political Science, University of Sydney

Harry Harding, Dean of the Elliott School of International Affairs and Professor of International Affairs and Political Science, The George Washington University

Sri Mulyani Indrawati, Director, Institute for Economic and Social Research, Faculty of Economics, University of Indonesia

Hilde F. Johnson, Member of Parliament of Norway, former Minister of International Development and Human Rights, Norway

Takatoshi Kato, Professor, Claremont McKenna College, and Adviser to the President, the Bank of Tokyo Mitsubishi

Huguette Labelle, Chancellor, University of Ottawa, and President, Canadian International Development Agency (CIDA), 1993–1999

Justin Yifu Lin, Professor, and Director of China Center for Economic Research, Peking University, Beijing

John Sayer, Senior Policy Advisor, and former Director, Oxfam Hong Kong

Appendix 2.

CHALLENGES FOR THE ASIA AND PACIFIC REGION

The context of Asian development has changed significantly since the establishment of the Asian Development Bank (ADB). These changes, and the even more profound ones that are likely to occur in the next 15 years, will present considerable challenges to the countries of the region, both as constraints and opportunities. These challenges result from global and regional forces and trends that will shape the development agenda of the region and the corresponding strategic agenda of ADB.

Global Factors, Forces, and Trends

Globalization. Global forces and trends greatly influence Asia's development. Today, many of these are lumped together under the term globalization: the emergence of an increasingly integrated world, reflected in expanding trade and investment flows; mobile capital; a changing structure of global production; an increasingly open policy environment; the spread of market forces; and the new, central role of information and communications technology. These forces are reshaping relations among countries, regions, and social groups, and changing the nature of the development process itself.

Globalization opens up new opportunities for developing countries. It allows for broader and faster access to resources, capital, technology, know-how, and markets; expanded development options; and increased potential for participation in the development process. The information revolution is an example of such expanding opportunities: it allows unparalleled access to information and know-how and

provides the potential for leapfrogging in the development process and for greater integration between developing and industrialized economies, as well as among the countries of the region. An illustration of this trend is the extensive development of mobile phone networks in countries with limited fixed cable capacity.

On the other hand, globalization also involves risks. Risks arise because increased linkages among countries can constrain the capacity of national governments to chart their own economic and social policies; an important example of such constraints is the pressures that international capital markets exert on local financial markets. In addition, some countries, regions, and groups risk being relegated to the margins of an expanding global economy because of technological and financial incapacity. Just as the information revolution provides an example of the opportunities of globalization, it also illustrates its risks: globalization can divide as well as integrate. Participating in the information revolution requires upgrading skills, technology, infrastructure, and institutions. Without these preconditions, countries risk being left behind, widening further the gap between countries at different levels of development.

Capital Flows. The globalization of capital flows has changed the fundamental composition of net long-term resource flows to developing economies. It has led to the dramatic expansion of private capital flows from 43.5 percent of net long-term resource flows in 1990 to 89.5 percent in 1996; even in 1998, at the height of the Asian crisis, the level of private capital investment was holding at 82.3 percent, or more than four times the level of official flows. By contrast, concessional finance in

1998 was one third below the 1990 level in real terms.¹³

The Role of Markets. Along with a shift in the sources of development finance, there has been a corresponding shift in the intellectual and institutional foundations of development, emphasizing the central role of markets and the private sector in the development process. The expanding role of private capital and markets has changed but not eliminated the role of governments and official development finance. The contribution of global private capital flows to development and, in particular, to poverty reduction, has been uneven: private investors and capital markets will not address key development issues whose financial returns they perceive to be low, and they have little incentive to invest where they judge the environment to be highly risky—which is often where poverty is most persistent. Therefore the role of official finance in development continues to be essential, even as such financing is under increasing pressure. Furthermore, markets must be supported and supplemented by governments, both to create appropriate institutional frameworks for the private sector and to help strike a balance between market forces and social cohesion, the lack of which can result in overly skewed, market-determined distributions of income and wealth.

Country Ownership. A consensus has grown within the international development community and the developing world on the key features of the development process. Strong country ownership of policy and institutional reform is essential for their successful implementation, and a wide range of stakeholders, especially the intended beneficiaries of development initiatives, must contribute to the development process if poverty reduction

and sustainable development are to be achieved. Such ownership and participation necessarily change the role and responsibilities of government—in particular, with respect to civil society.

Cooperation. Cooperation and partnerships are increasingly important in ensuring the efficient and effective use of resources to support the development process. Innovative partnerships are needed among aid agencies and international financial institutions, brought about by enhanced and expanded coordination within a framework of “constructive pluralism.” Increasing collaboration is required between participants in the development process that have important contributions to make to development. These include not only governments, official aid agencies, and international financial institutions, but also subnational and nongovernment participants such as nongovernment organizations, civil society, and the private sector (at the community and local as well as the national level).

Multilateral Development Banks. Even as the development agenda has expanded greatly since ADB’s inception, encompassing a widening range of issues in social development and governance including various global issues such as the environment, labor standards, gender discrimination and international migration, the global environment of multilateral development banks (MDBs) has also changed significantly. In the present international climate, competition is more intense for declining overseas development assistance (ODA) funds—including demand for postconflict reconstruction. As a consequence, the need for ODA, especially for concessional financing, has come under increasing scrutiny—especially when expanding private capital flows are seen as available, in principle, to finance development. Furthermore, with ODA funds limited and declining, the aid community is

¹³ International Monetary Fund. 1999. *World Economic Outlook*. Washington, DC.

beginning to allocate development assistance increasingly on the basis of the demonstrated performance of both economies and international institutions.

Regional Factors, Forces, and Trends

Equity. Growth is necessary but not sufficient for development. Asia's remarkable and sustained growth has significantly reduced poverty and improved the quality of life for many Asians. However, growth that results in widening inequalities in income and wealth is not sustainable; to ensure broad-based growth, access to assets and opportunities must be widened. Equity is an essential factor in transforming growth to development and for addressing problems of poverty in the region. Achieving gender equity is perhaps the greatest challenge, thus ensuring that 50 percent of the population has an equal say and status in development.

Physical and Social Infrastructure. Responding to underdevelopment and poverty in the region requires addressing old issues, sometimes in new forms. At ADB's inception, a critical constraint on growth and development, and the focus of ADB's initial role and operations, was the lack of physical infrastructure. Still a significant factor in the region's development, it now includes urban and new types of infrastructure, such as information and communications technology and services. Another continuing prerequisite for sustainable development is social infrastructure, such as education and health services, evolving in response to the changing demands in areas such as skills development and health delivery systems. Social support programs, as part of social infrastructure, are vital components of development, necessary to ensure inclusive and equitable development by addressing the problems of the disadvantaged.

Governance. New issues have also emerged, the development roles of which were not sufficiently recognized earlier. Effective governance is now generally accepted as a fundamental requirement in the development process, essential for sustainable and equitable growth and for poverty reduction. The concept of governance covers a range of issues relating to the capacity of government, at all levels, to formulate and implement efficient, effective, and equitable policies, programs, projects, and services. It includes corporate governance: the need for appropriate institutional, legal, and regulatory frameworks for efficient markets and for the management of enterprises. Governance also reflects the need for effective participation by individuals, groups, and communities in decisions that affect their lives and interests, a key condition for sustainable and inclusive development.

Environmental Management. The effective management of the region's physical resources is a critical factor in Asia's development. Asia's amazing growth was accompanied by resource depletion and environmental degradation. In economies that were not able to generate sustained growth, the unmanaged depletion of natural resources was often seen as the key source of income generation, leading to significant deterioration of the environment and the quality of life, and limiting future development options. As industrialization accelerates and expands, competing demands on the environment and the natural resource base will be even greater. If robust growth is to be achieved, the environment must be preserved, remaining resources protected, and ecological degradation reversed.

Urbanization. The extensive urbanization that has resulted from the region's rapid growth, growing population, and increased rural-urban migration will continue to accelerate. In another two decades, almost half of the region's population will be

urban. Urbanization in Asia has increased the number of megacities and has resulted in heavily congested and polluted urban centers; living conditions and quality of life are deteriorating for large numbers of residents, especially for the poor and for disadvantaged groups in cities, whose numbers grow with increasing urbanization. Coping with urbanization will pose a major challenge for the region in the next 15 years.

Demographic Shifts. Demographic trends have important implications for all aspects of development in the region. As a whole, the developing Asia and Pacific region, with a population of 3.2 billion, is still experiencing high population growth, but it is beginning its demographic transition. At present children and youth (18 years or under) comprise 40 percent of the population, but by 2015, they are expected to represent only 34 percent. At the same time, there will be a progressive increase in the elderly. While aggregate statistics should be read with care, given the impact of large countries such as the People's Republic of China and India, a key issue is that the proportion of young in the region will remain high in the next 15 years. This has important implications for social services such as education, health, and child protection, and for labor market policies: growth will have to create sufficient economic activity to employ productively the large numbers of new entrants into the labor market.

Financing Development. Financing development remains a critical issue in Asia. The remarkable transformation of the region's economies has been driven to a large extent by private investment, both domestic and foreign. The private sector has had an essential role to play in the development process, and this role is expanding in scale and importance. However, outside the agriculture sector, the region's private sector resources are concentrated in a relatively small group of primarily

middle-income countries, and concentrated within these countries in a limited number of sectors, e.g., selected export industries. Therefore, the role of the private sector in financing development must be supplemented and complemented by that of government.

Intraregional Integration. The diverse conditions and circumstances of the countries of the region, including their levels of development, have resulted in differentiated needs in the development agenda of particular countries and groups of countries. This differentiation has important implications for the strategy and operations of all development partners in the region, including MDBs: although there are common needs and an increasingly generalized experience based on effective policies and institutions, one size may not fit all. The special needs of the transition economies and the Pacific DMCs exemplify both the diversity of conditions and the differentiated challenges of development in the region.

Further, the diversity of the economies in the region has supported the emergence of intraregional integration in the form of interdependent investment, production, and trade linkages. Integration has played an important role in Asia's transformation in the past two decades and the growth and development of the participating economies. The process of increasing integration is creating pressures for "mutual adjustment" among countries and/or regional cooperation in various forms. This has resulted in formal cooperation arrangements such as the ASEAN (Association of Southeast Asian Nations) Free Trade Area and the South Asian Association for Regional Cooperation (SAARC), and informal subregional cooperation initiatives, as in the Greater Mekong Subregion and the Indonesia-Malaysia-Thailand Growth Triangle, among others. Linkages among the countries of the region, integration, and

the corresponding need for regional cooperation are likely to intensify in the coming years.

Development Challenges

Global and regional factors, forces, and trends shape the development of the countries of the region, and define the context for ADB's strategic agenda. Among the fundamental development challenges for the region are

- achieving development and poverty reduction, requiring growth that (i) is sustainable and inclusive, so that its benefits reach those most in need, and (ii) preserves and protects the environment;
- promoting equitable access for all, especially women, to assets and opportunities, so that all have a stake in development;
- instilling good governance, to ensure an effective role for government in the development process, including providing the institutional framework for markets and for wide participation in the development process;
- mobilizing private sector resources to provide the necessary financing for development and to enable market forces to support the development process;
- promoting regional cooperation and integration to address shared opportunities and constraints; and
- addressing the issues of environmental sustainability and reversing the effects of past environmental mismanagement.

POVERTY REDUCTION AND DEVELOPMENT

Robust, sustained economic growth is essential for significant gains in poverty reduction, for addressing the diverse problems of underdevelopment in the region, and more generally for improvements

in the quality of life. Given the diversity of conditions, the required per capita growth rates will vary among different subregions and countries, but in each case they will have to be robust enough to address the particular problems of underdevelopment and poverty and to meet the international development goals: an estimated 3.5–4.0 percent on average in East Asia and 5 to 6 percent on average in South Asia.

Building and upgrading the physical and social infrastructure throughout the region is a necessary condition for robust, sustained growth, requiring significant investment in the next 15 years. The investment needed to finance basic physical infrastructure alone is estimated at close to \$3 trillion during this period. Public investment will need to continue to play a key role in responding to this need, particularly in areas not likely to be attractive to the private sector. Large investments will also be required in social services such as education, health, shelter, and water supply and sanitation, especially in the poorer countries. In the case of education, basic coverage is likely to remain a continuing problem in some DMCs in the decade ahead; at the same time, the challenges of globalization and associated information and communications technology will call for both major improvements and changes in education systems and curricula throughout the region.

THE CHALLENGES OF EQUITY IN DEVELOPMENT

As economies develop and evolve, not all groups participate and share equally in the benefits of development: some groups are left behind or marginalized, such as the poor, the aged, and the otherwise disadvantaged. The scale of the challenge is reflected in the continuing weak social indicators in many countries, particularly for women, who constitute a disproportionate share of the poor, and whose condition is reflected

in indicators such as access to social services, assets and opportunities; and infant and maternal mortality rates.

In order to address pervasive problems of poverty in the region, the benefits of development will have to reach all the key groups that make up the poor. The success of development is, to a large extent, measured by how effectively it meets the emerging needs of the marginalized and disadvantaged. This success is also contingent on the ability of a society to maintain the social consensus during the development process, when economic growth necessarily impacts unevenly on different social groups. A fundamental challenge to the countries of the region is to establish effective programs of social support to address the needs of the marginalized in society to ensure equity—especially gender equity—in development and the social cohesion necessary for continued growth.

For inclusive development, governance has to be strengthened: in particular, participatory processes to involve stakeholders in the decision-making process need to be developed. The growing trend toward decentralization and devolution in the region is a step in this direction, but needs to be further strengthened by building the capacity for participation at the local community level.

THE NEED FOR STRENGTHENING GOVERNANCE

A core challenge for the countries of the region is to improve governance to support the development process. The challenges of governance relate to a wide range of issues, such as the need for

- more efficient and effective government through improvements in core government functions and public sector management;
- effective and equitable rules and regulations, including those governing the operation of markets and enterprises

and the mobilization of private sector resources;

- stronger capacity at subnational levels, including local communities and institutions; and
- improved conditions for wider and more effective participation in decision making, including decision making by civil society.

The Asian crisis underscored the dangers of poor governance in both the public and private sectors, and highlighted the importance of the role of effective governance in economies that achieved historically unprecedented high rates of growth. At the same time, economies with less enviable records were often inhibited in their development by poor governance that limited the efficiency of public investment and the potential contribution of the private sector.

A key challenge of governance is to strengthen capacity at subnational levels, including provinces, states, urban areas, and local communities where most stakeholders in development live and where development, especially poverty reduction, actually takes place. Improving governance at the subnational level is essential to increase the efficiency and effectiveness of public investment, including the provision of physical and social infrastructure services to the poor, and to promote inclusive development. The key challenges at the subnational level include strengthening the capacity of local institutions to contribute to the development process, and increasing the opportunities and capacities of a wide range of stakeholders to participate in this process.

MOBILIZING PRIVATE SECTOR RESOURCES FOR DEVELOPMENT

Mobilizing private sector resources for development is essential at a time when governments in the region are faced with an increasingly complex development agenda,

and the resources available to them are ever more thinly stretched. However, in many countries of the region, a number of general factors constrain the effective contribution of the private sector to development. These constraints are especially severe in economies in which the private sector's role has been far more limited in the past, such as those in transition. The constraints include institutional shortcomings, such as distortions to the efficient deployment of resources; lack of sufficiently competitive markets; weaknesses in the intermediating role of financial systems for efficiently channeling savings to productive investment; weak corporate governance systems; unclear rules and regulations; information constraints; and corruption that drives up the costs and risks of doing business. Addressing these constraints on governance will be a fundamental challenge to the countries of the region in the coming decades.

In addition to addressing general constraints on the private sector, two specific challenges are of particular importance.

- Effective and innovative public-private partnerships must be developed to allow sharing of risks and costs in the development process, especially in the provision of infrastructure. Innovative public-private sector partnerships free public resources for addressing key poverty-related issues, and help channel the resourcefulness and flexibility of the private sector to the development process.
- The domestic private sector in the region must be strengthened, including in particular the small and medium-sized enterprises that are a major source of employment and income, to anchor development more firmly in domestic capacity and promote wider participation.

Increasing the capacity of governments and enterprises for public-private partnerships and creating an effective environment

for developing the domestic private sectors in the region are important challenges for mobilizing private sector resources for development in Asia and the Pacific.

SUPPORTING REGIONAL COOPERATION AND INTEGRATION

Increasing intraregional linkages, together with the limited resources and market capacity of individual economies, create both pressures and opportunities for regional cooperation in Asia and the Pacific. Regional cooperation can provide greater opportunities for the development of the participating countries and for the region as a whole through a pooling of resources, markets, and risks to support the development process. Creating effective frameworks and mechanisms for cooperation and integration is thus a central challenge in facilitating development in the region.

Part of the challenge for regional cooperation arises because of particular shared opportunities and needs, as in the case of regional public goods involving activities with impacts that cut across borders. Examples include cross-border environmental issues; knowledge and information flows; containment of diseases such as HIV/AIDS; regional financial stability; and most fundamentally, the need for regional economic and social stability. Addressing the needs for regional public goods, including exploiting shared opportunities and responding to common problems, will be a central challenge of regional cooperation to support development in Asia and the Pacific in decades to come.

PROMOTING SOUND ENVIRONMENTAL MANAGEMENT

Ensuring the environmental sustainability of growth in the region's resource-based economies is essential for development and poverty reduction. Asia's spectacular growth during recent decades has exacted a heavy toll on the environment, resulting

in severe degradation and resource depletion in many parts of the region. This growth has also resulted in massive urbanization and spreading cities, which are generally ill-equipped to deal with rapidly expanding populations. Urbanization has made further demands on the increasingly fragile resource base of the region's economies. For far too long, policymakers have ignored the environmental impact of development, or attempts at regulation were ill-conceived and inadequate. Now, environmental degradation is beginning to jeopardize prospects for sustainable development throughout Asia, and reversing the effects of past environmental mismanagement will entail huge costs—estimated at \$175 billion per year in 2004, rising to about \$250 billion per year in 2025—to roll back the worst excesses and allow for sustainable development and environmental protection.

Appendix 3.

THE CHANGING ROLE OF THE ASIAN DEVELOPMENT BANK

As the Asia and Pacific region transformed, the needs of developing member countries (DMCs) changed, and so did the conventional understanding of the development process. These changes greatly influenced the thinking of shareholders and management of the Asian Development Bank (ADB), and shaped the institution's development.

In the 1970s and 1980s, ADB was predominantly a project lender, supporting the DMCs' investment needs in agriculture, industry, and infrastructure. However, issues of sustainable, inclusive development, and quality of life became increasingly important. Over the past three decades, to address these issues and meet the new needs they entail, ADB has shifted its operations from supporting mainly economic growth and physical infrastructure to a greater emphasis on social infrastructure, the environment, and social development. ADB has thus changed from being essentially a provider of project finance to a more broad-based institution with greater emphasis on policy and institutional support.

The first two decades of ADB's experience showed that a sound policy and institutional environment was critical in ensuring the intended development impacts of its projects. This lesson was equally pertinent as the institution began venturing into complex crosscutting areas such as poverty reduction, human development, gender issues, sustainable environment management, and good governance. Thus, policy dialogue with DMCs on major sector issues in the context of project lending assumed ever greater importance. Along with seeking reforms through policy dialogue on a project-by-project basis, ADB has also, since the mid-1980s, supported wider sec-

tor policy and institutional reform. To facilitate this wider reform process, ADB complemented its project lending modality with two new modalities: program lending (instituted in the mid-1980s), and sector development programs (in the mid-1990s). Policy-based program loans are linked to the implementation of sectorwide or economy-wide policy reforms rather than to specific project activities. Sector development programs combine an investment, a policy-based loan, and technical assistance to meet sector needs more comprehensively.

Looking back at ADB's performance over the past three decades shows that overall, its development impacts have been significant. Its assistance—through concessionary funds (i.e., the Asian Development Fund) for the poorest DMCs, ordinary capital resources, and grant technical assistance—supported the development of many DMCs during a period of tremendous change in the Asia and Pacific region. ADB contributed to improved household food security despite the large increase in population, and supported the tremendous growth of energy and physical infrastructure and the expansion of the social sectors. During the past decade, ADB's public sector and expanded, in-house private sector operations have actively supported the participation of the private sector in the development process. Moreover, ADB's work in strengthening domestic financial and capital markets in the DMCs has bolstered its catalytic role in promoting the private sector. In its lending and technical assistance operations, ADB has also emerged as a major catalyst for enhanced resource transfers to DMCs through official and commercial cofinancing. Since the

early 1990s, ADB has played a leading role in the Asia and Pacific region in fostering major regional and subregional cooperation initiatives such as the Greater Mekong Subregion project.

Postevaluation results also reveal shortcomings in the institution's operations, which are not always easy to measure. Assistance for institutional capacity building has not been adequately effective, as it was often closely related to the needs of a project rather than an institution. This skewed emphasis may have had adverse effects on the sustainability of projects. In some projects, the targeting of the beneficiaries and interactions with them in the context of project preparation and implementation have not always been fully satisfactory. ADB could also have played a more effective role in providing clear and independent policy advice. Finally, and perhaps most important of all, despite many changes in the 1990s and a broadening of its mandate and goals, ADB's operations have remained essentially driven by project financing, a situation that tends to result in a lack of focus and prioritization and in some congestion of strategic goals. Hence, the institution still has some ground to cover before it can truly claim to be an adequately broad development institution with a sharp country focus.

Over the past year, ADB has taken a number of major initiatives to address some of these shortcomings, enhance its focus, and improve efficacy. Two major departures in thinking and approach include the poverty reduction strategy and the private sector development strategy. At the same time, the new resident mission policy, adopted early in 2000, is expected to lead to improved country focus in operations and a much closer relationship with DMCs.

ADB has reflected on its shortcomings, which provide a valuable guide for improving future operations. Furthermore, ADB has significant and unique strengths. The

strategic agenda reflects these strengths. First, ADB is the only development finance institution based in Asia and the Pacific, and the majority of its owners are regional members. Because of its Asian character and solely Asian experience, borrowing members regard ADB as a reliable and trusted development partner. This was demonstrated when its fast response to countries hit by the 1997 crisis helped them to protect the poor, stabilize their economies, and implement key reforms. The Asian character of ADB and its sensitivity to Asia's diverse cultural norms give it a considerable advantage in understanding the wide range of issues involving development changes in Asia and the Pacific. ADB will rely on this advantage to sharpen its analysis and understanding of poverty in its DMCs, devise approaches to eradicating it, and better define and target interventions aimed at poverty reduction.

Similarly, the trust of its DMCs enabled ADB in 1995 to become the first multilateral development bank with a Board-approved governance policy. ADB has unique experience with the importance, sensitivity, and complexity of governance issues in Asia and the Pacific. It has also learned from the varied governance experience in the region, including that derived from its regional members that no longer receive direct ADB assistance. Over the past few years, borrowing member countries have increasingly looked at ADB as a trusted and knowledgeable partner in assisting them in their governance reform agenda, which is central to the development process. Governance will also be central to ADB's strategic agenda over the next decade and a half.

The importance of the private sector, both domestic and foreign, in the development process over the next decade and a half is widely recognized. ADB has conducted public and private sector operations within a single institutional setup. It thus has a unique opportunity to play the role

of a broker between the public and private sectors in its DMCs. This is a strength that needs to be fully exploited and that forms an integral part of the strategic agenda. DMCs must be able to rely on ADB for assistance and advice on expanding the role of the private sector with appropriate safeguards in place for regulatory, financial, social, and environmental priorities. The private sector, meanwhile, should be able to rely on support from ADB in mitigating its risks.

All shareholders, and borrowing shareholders in particular, recognize ADB's efforts in promoting regional and subregional cooperation. The successful Greater Mekong Subregion initiative, started in a postconflict situation, is an important example of the dividend that can be realized when peace prevails among and within DMCs. The Pacific DMCs are also widely relying on ADB to support subregional initiatives crucial for their development, and the Central Asian republics need to rebuild and rethink regional cooperation frameworks. For all DMCs, regional cooperation and integration initiatives offer enormous possibilities for development. With its Asian character and its neutrality, ADB is considered a trusted partner. In its strategic agenda, ADB affirms this strength.

Although ADB has been responsive to environmental concerns since its creation, its involvement with environmental management increased substantially from the mid-1980s onwards. The environmental aspects of all its projects are reviewed, and ADB has assisted the DMCs in building institutions dealing with environmental concerns and policies. ADB has succeeded in placing environmental issues in the forefront of all development planning in the DMCs, and has contributed in a major way to raising regionwide awareness of environmental matters. ADB has developed a well-recognized record in dealing with the region's numerous environmental problems; it must build on that record to help DMCs realize the environmental targets of the international development goals.

From its history, experience, and regional character, ADB has much to offer to both its borrowing and nonborrowing shareholders. On this basis, ADB will affirm its role as the premier development institution in the Asia and Pacific region. However, given the challenges and limits on its resources, it cannot do so alone. ADB will further enhance its strengths, together with its borrowing and nonborrowing members, by actively seeking strategic alliances with other development partners in pursuing its strategic agenda.

Appendix 4.

ACTION PLAN FOR IMPLEMENTING THE STRATEGY

Action	Date
1. Medium-term strategic frameworks (MTSFs) covering five years will be prepared. The first MTSF will be prepared in early 2001 and will cover the period 2001–2005.	Second Quarter 2001
2. The following documents will be prepared within the guidelines of the first MTSF:	
(i) country strategy and program for each developing member country,	Mid-2001
(ii) three-year rolling work plan and budget framework,	October 2001
(iii) the budget, and	December 2001
(iv) planning directions.	January 2002
This cycle will be repeated annually.	
3. The second MTSF and review of the long-term strategic framework (LTSF).	Mid–2005
4. Third MTSF and second review of the LTSF.	Mid–2010
5. LTSF review and preparation of LTSF (2016–2030).	Mid–2014
