



Forum on

Inclusive Growth and Poverty Reduction in the New Asia and Pacific

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DISCUSSION HIGHLIGHTS

Opening and Welcome Remarks

- Two faces of Asia: unprecedented economic success and reducing income poverty, versus persistent social and environmental poverty and rising inequality, especially in rural areas; social exclusion of specific groups; countries and regions left behind
- New challenges for inclusive growth and poverty reduction in the region: climate change, demographic transition, migration
- Questions for an inclusive growth strategy:
 - Should the emphasis of ADB's new strategic framework be more on 'growth' or more on 'inclusion'?
 - How would 'inclusive growth' more effectively address persistent poverty on the one side, vulnerability on the other and this without challenging growth?
 - What is the new role of central and/or local governments, private sector, and civil society?
 - How shall development institutions adopt to the new development challenges in the region of today and tomorrow?

Session 1: 2020 – Inclusive Growth and the New Poverty Reduction Agenda in Asia and the Pacific (Keynote Address: Growth, equity and Poverty Reduction in Asia and the Pacific)

- Rising concerns on the pattern of growth and rhetoric in inclusive growth have implications on government programs and strategies
- EPG report has a good analysis but weak and biased recommendations
- Move to inclusive growth (\$2) is supported
- ADB's possible role: Where markets and governments fail, where ADB can really make a difference. Consequence for an inclusive growth strategy:
 - Not: Core financial sector, less in infrastructure, rich areas in middle income countries
 - More future in:
 - Subnational level and in addressing cross-border poverty (slightly different from regional integration)
 - The key of rural growth: productivity enhancements in rural areas
 - Urbanization and urban shelter
 - Social protection, targeted programs also have a role, risk mitigation
 - social services, especially relevant education for the new labor markets
 - environment and climate change but not exclusively focus on energy
- instruments:
 - importance of bundling knowledge and advice
 - poverty reduction does not necessarily require grants
 - in infrastructure more PPPs
 - align public and private sector activities
 - use increasingly guarantee instruments
 - one does not fit all: MICs different than small economies: more social orientation in MICs, more pro-poor growth orientation in small economies

Session 2: Challenges to an Inclusive Growth in the Asia and Pacific Region (Plenary Panel Discussion)

- Pro-poor growth focuses on outcomes. Inclusive growth focuses on opportunities (creating opportunities and broadening access to opportunities, the poor must get richer faster than the rich, from entitlement to empowerment)
- pro-poor growth in Sri Lanka made the country fragile, because it excluded regions and population groups; hence the need to go to inclusive growth
- financing inclusive growth requires more spending in infrastructure and in social programs; MICs like India have new fiscal space; demand for social equity will result in increasing international financing despite of enhanced internal revenue generation
- poverty reduction remains World Bank's overarching mission and shared growth (i.e. pro-poor growth) is its strategy. This means for Asia increased investment to address urbanization, the skill differentials (education), transition poverty and risk mitigation (need for social protection) , rural productivity enhancement through rural infrastructure

Further discussions:

- importance of bundling knowledge and advice
- inclusive growth does not necessarily mean poverty reduction; need for targeted programs also
- need for new approach in infrastructure must result in shift in ADB's staff skills mix: from engineers and sector specialists to more flexible strategic economist that are able to address key cross-cutting issues such as PPP, governance, environmental concerns, poverty; need for another knowledge base in ADB
- the need for stronger discussion in LTSF on governance issues and institutions
- ADB (and World Bank) are development banks providing knowledge and funding. This unique combination makes them relevant for the new Asia. ADB shall not leave agricultural and social sectors because these sectors do not get international financing (mostly only TA) which is still required

Session 3: Launching the MDG 2007 Update

- Big differences within the countries
- South Asia has lower health MDG achievements than sub-Saharan Africa --> need to prioritize mother and child health
- Need to do more on environmental poverty and MDG 7, especially: rural water, urban sanitation, slum upgrading
- MDG data problematic in some cases (e.g. Maternal Mortality Rate, HIV prevalence, urban slums)
- Need for more country specific MDG indicators

Session 4: Country Gallery – Sharing Best Practices in Inclusive Growth

Session 5A: Inclusive Pattern of Growth

- Labor market:
 - Asia was successful in reducing income poverty (\$1) but it was not in reducing vulnerability (\$2)
 - Asia saw a decline in the employment intensity of growth and a rising informality of the economy. That makes people more vulnerable
 - Hence rising productivity employment where the poor live and work, i.e. in rural areas and in agriculture is the key
 - Inclusive growth should address also redistribution through social protection and targeted programs
 - Need to rise the demand for unskilled labor, not for high profile labor
 - Building up and maintaining social protection schemes is much less expensive than many people think
- Rural economy
 - Path out of poverty is the path out of agriculture and out of rural areas; need to support migration and rural development at the same time
 - Agriculture is not any more the rescuing area for those falling into poverty in middle income countries (Thailand); you need to build up social protection systems
 - hence we need:
 - Secondary city development
 - Rural education
 - Rural infrastructure
 - Agricultural productivity enhancement and investments in agricultural research
- Financial markets
 - Private sector led growth needs new instruments; ADB can help particularly through providing guarantees
 - Risk absorption would include
 - Development of insurance instruments (together with microfinance)
 - Step up microfinance for the small industries (not the medium industries) and other “bottom-of-pyramid” funds
 - Micro-equity
 - Social stock exchange
 - ILO view on inclusive growth: pro-poor growth is pro-employment; inclusive growth means redistribution and targeted macro-policies
- Infrastructure for poverty reduction
 - Purpose: to promote pro-poor growth
 - 4 guiding principles:
 - Country led:
 - Pro-poor: geographical targeting, infrastructure services and not only facilities, smart subsidies and pro-poor tariffs, linking up with the poor’s productivity, address connectivity, social safeguards and labor standards (HIV/AIDs), link up to social programs through access
 - Sustainable infrastructure: more focus on maintenance and labor based methods than on new facilities;
 - Increase financing and use it well: address good governance in the sector; importance of ex-ante poverty infrastructure investments

- Bilateral donors like JBIC apply InfraPoor and more away from Infra pure; ADB may wish to harmonize
- Learning from Latin America
 - Control entrenched economic interest groups (both entrepreneurs and vested labor unions) over public policy
 - Political openings provide space for smart technical solutions (e.g. Mexico's progresas)
 - Need for careful involvement in public private partnerships, especially structuring the concessions
 - Need for building information, accountability and public debate
 - Asia can learn a lot from Latin America to avoid inequality trap, as the former development paradigm is not working in Asia any more
- Migration
 - from brain drain to brain circulation: Asian countries shall not focus on remittances but on knowledge transmission; they shall try to get their people back again
 - the poorer the country, the more the skills leave. These people are not sending remittances and are not important for poverty reduction
 - 80% of migrant workers are low skilled; they need
 - social protection in their partner countries
 - the need to channel remittances is a new field for the financial sector; ADB can have an innovative role linked up to microfinance

Session 5B: The Political Economy of Social Exclusion

Key Inputs:

- How to build more inclusive societies: Mary Racelis of Ateneo de Manila University, Philippines, explained different types of social exclusion (e.g., based on gender, religion, origin, ethnicity, legal and citizenship status, etc.). She emphasized the importance of integration of social and political exclusion into economic policies. The case in point is globalization and regional economic integration. While globalization/integration offers a lot of opportunities to people, if not well managed, it further disadvantages the already excluded groups. There are ways to promote social inclusion in economic policies and programs and successes elsewhere do exist. E.g., accountability mechanisms and democratic space demanded by civil society participation; access to justice; land rights (although caveats exist of the cases formalization of land rights may sometimes negatively affect women among ethnic minorities); reforming laws and institutions. ADB has no choice but to address social exclusion if it wants inclusive growth. It can assist the governments in mainstreaming social inclusion into economic policies and make governments accountable for inclusive society.
- Strategies to address gender-based exclusion: UNIFEM Bangkok's Jean D'Cunha emphasized the importance of (i) good quality sex-disaggregated data; (ii) research; (iii) focus on women's unpaid work, especially home care economics; (iv) capacity of governments and civil society in addressing gender equality; (v) building institutional mechanisms for addressing gender equalities; (vi) equal opportunity and sometimes affirmative action (if needed) laws and policies; and (vii) gender-responsive budgeting. ADB can play a major role in

- supporting these efforts, especially by looking at the gendered impacts of the policies and programs it supports in DMCs.
- Strategic responsibility of donors on minorities: UNESCO's David Feingold emphasized ADB's responsibility for "do no harm" principle by mitigating and managing negative impacts of its GMS projects, especially cross-border economic corridors, tourism infrastructure, and natural resource management programs that affect the livelihoods of the hill tribes. To effectively target messages to uplands minorities in the GMS, use of minority language is most effective.
 - Community-driven development in Thailand. As a successful local inclusion model, PDA's Anita Sims emphasized the village development model whereby villages are linked to the private sector companies but the villagers manage their own project and funding. So far, the PDA covered 100 villages, but the scaling out has been done carefully as every village has a different situation, capacity, and needs. Ensuring gender equality and paying attention to religious divides (especially in the South) in the village is crucial in promoting inclusion.
 - MDB's role in promoting birth registration and legal inclusion. IADB's Mia Harbitz shared the Latin American experience in promoting birth registration and legal identity in order to ensure access to services and entitlements.
 - Finally, M. Racelis adds that social inclusion promotes peace and security and emphasized the rights-based approach to development.

Main Discussion Points:

- On the PDA case: everything is received and traded with villagers; women wanted in the bank because of they are good in money; local members of the government also involved (represented in projects); social safety nets also in place (e.g. for those who cannot pay back)
- On achieving inclusion: more participation by those who are often left out (the vulnerable groups); give access and enhance capacity for decision-making; notion of citizenship (having an identity) is a start
- On the role of ADB: Clearly yes. Some said "clean up it own mess first" (e.g. in doing tourism projects); Other said ADB's role is in mainstreaming social equity into its own interventions (e.g. benefit distributive policies, participation of the vulnerable and excluded groups, looking at impacts by gender, ethnicity, and castes)

Session 6: Messages from NPRS-PRF Poverty Funds Initiatives (Plenary Panel)

Key Inputs:

- Overview – The following 5 thematic areas have been identified to capture experiences and lessons learned
- Theme 1: Pro-poor policies and strategies – The case of Pacific Countries was shared. A series of poverty analysis, participatory poverty assessments, and poverty strategy development have not been possible without the NPRS-PRF financing support.

- Theme 2: Regional economic integration and poverty – A regional study in GMS on cross-border poverty impacts was shared. Impact on labor migration, informal trade, environment, gender dimensions are important to be looked at.
- Theme 3: Pro-poor infrastructure – A case study in PRC on integrated road network planning to maximize poverty reduction impacts (by linking the expressways with rural roads) was shared. Government ownership and ADB's readiness to apply methodologies to other ADB-supported activities were raised as a way to improve the influence the TA.
- Theme 4: Inclusion, equity, and targeting. A case study on reducing risks among ethnic minorities in GMS against HIV/AIDS, human trafficking, and non-traditional drug use was shared. The success lies on the use of research-based radio soap opera program using minority languages.
- Theme 5: Poverty, natural resources management, and environment. A case study on Tonle Sap capacity building initiative was shared. The importance of making people understand the environment-poverty linkages was emphasized.

Main Discussion Points:

- Participation of stakeholders is key to successful pro-poor interventions and policymaking.
- Attention needed for local capacity building with a longer time span.
- Partnerships are key (government, local government, local research institutes, NGOs). ADB should go beyond 'get the consultants do the job'.
- Need to go beyond simple dissemination. Replication, demonstration are important.
- Importance of information in poverty reduction.
- Cross-border issues are something that ADB can further build their capacity on.
- Donors' catalytic roles crucial – not just funding but for policy dialogue.

Session 7A: Bridging the Geographical Divides – Global, Regional and Local

Key Inputs:

- Scene setting presentation: In the process of growth, poverty is increasingly concentrated in rural areas and agriculture sector. In this process, it is important that economic policies are formulated in t way to improve rural productivity and facilitate rural-urban mobility.
- Can regional integration bridge the cross-country divides? – There are negative and positive impacts at both regional/macro and cross-border/micro levels. The issues are different between South Asia and GMS.
- Rural-urban divide (PHI) – It is important to have more holistic approach at national level to link rural and urban. At the local government level, coordination across different administration is crucial. Capacity building, effective private-public partnerships are also important.
- Rural development (PRC) - Western development program, East-west Cooperation Program, and Piloting experience were shared. Targeting of resources to the poorer and remote regions, and the cooperation between the better-off and poorer provinces were considered as key to success.

- Fragile states (Pacific) – There is a need to place civil and social order in the core of development in fragile states context. Fragility varies – could be political, vulnerability to natural calamities, weak governance, and/or exclusion of minority groups, women, etc. ADB can help by helping implementing its strategy to fragile states, hire committed staff, and allocate more resources to fragile states.

Main Discussion Points:

- Need to differentiate agriculture sector and rural and focus more on entrepreneurship in rural areas (although Asian experience in rural industry has not been successful).
- Contribution of service sector in rural-urban transition is unrecognized and could be important for ADB to consider.
- Impact of climate change could be a factor that may change the geographical divides (could worsen the situation further in already vulnerable areas and countries).

Session 7B: Inclusive Social Services and non-Income MDGs

- Social development trends
 - When countries grow from low middle income to high middle income social welfare systems become increasingly important
 - Social welfare comprises: active employment and poverty reduction, risk protection (health and pension) education, housing; all sectors are important
 - Social welfare is not targeted only to the poor but for all people of a society; however the poor need special attention; there is a need to target areas and social groups
 - Governments in Asia increasingly take responsibilities for harmonious society --> increasingly potential for cooperation with ADB
 - What ADB needs to do to become relevant:
 - Provide knowledge and comparative analysis of OECD and other Asian countries
 - Provide knowledge with financing; the issue is not the interest rate of the loan but the relevance and quality of the product provided
 - Social sectors are particularly sensitive to flexible and country focused design and to fast delivery mechanisms: ADB has to be more efficient and more innovative - otherwise it loses relevance
- Health systems:
 - People can find employment and opportunities only when they are healthy and protected against severe shocks; hence the need for health insurance
 - Asia has very big problems in health outcomes; need to invest more
 - Increased spending in health is compromised by low tax base (public funding) and high informal employment (limits health insurance); foreign aid can be a major financing source (60 bio aid would be needed for health but only 9 bio is spent)
 - Other donors focus mainly on Africa, particularly in the health sector; there is an important role of ADB to remain engaged in Asian Development Bank, especially in health system support and health financing
- Social protection
 - Social protection provides opportunities to do economic activities for all

- Social protection and increasing access to social services is often politically demanded, but there are weak implementation and financing arrangements
- Conditional cash transfer is a good tool to target the poor and at the same time improve health and education outcomes
- ADB shall engage moiré on implementing and designing social protection programs
- Decentralization of social services delivery
 - Decentralization can offer a more inclusive form for social development than central social service delivery systems
 - Decentralization also results in greater predictability of funding systems
 - It helps reducing the gap between the expectations of the public and the its delivery capabilities
 - To deliver better social services not only NGOs should be involved but increasingly for profit private sector
 - ADB shall continue under its governance and finance programs the support to decentralization and include in the design of these programs social development and social sector delivery issues
- Social sector finance
 - Three country clusters:
 - caring societies that have a relatively well established social system with high public spending (VIE, PRC, CARs, SRI, JAP, KOR)
 - countries that have rethorics on social policy but little investments (South Asia , some countries in East Asia)
 - poor countries without much financial resources for social spending
 - massive size of the informal sector requires more government investment; cannot be substituted by the private sector
 - We need massive increase in social sector spending:
 - India spends only 4% of GDP on education and 1.3% on health but shall spend 8% anmd 3% respectively
 - With growth emerging middle income countries find new fiscal space
 - Tax policies shall be used better for social policy financing; tax reforms are substantial tool for providing fiscal space
 - Donors shall focus on areas where social systems are weak.

Session 8: Institutional harmonization (session 8)

- Demand from and priorities of middle income countries
 - employment and underemployment is closely linked to poverty
 - national wealth creation is related to productivity (related to education), production costs (link to infrastructure), growth potential (governance) and risk factors (link to social protection, environment, political and other risks) .
 - you can have inclusive growth in an oligarchic society, but such governance systems are not sustainable. Hence the need for ADB and World Bank to get stronger involved in governance and institutional issues
 - ADB can still play a role in infrastructure when it addresses sophisticated knowledge and institutional frameworks in its lendings; private sector and neighboring countries' demand does often not do that;
 - For MICs ;like PHI knowledge is more important than financial terms; ADB needs to develop its comparative advantage in knowledge

- ADB need to be a better knowledge institution and need to coordinate better with academic centers in the region
- Migration and remittances flow is major issues --> need to get involve in social protection and financing systems for the poor
- ADB's role will be increasingly at the level of local government units
- Demand from and priorities of small economies and fragile states
 - There is a need in fragile economies to create growth first
 - Fragile states need multiple investments, the focus on a few sectors only is not useful
 - ADB need to sharpen its diagnostics and do more on governance and institutions
 - ADB should focus more on development and less on banking: performance based lending is not often helpful
 - development takes time and fragile states need a particular long-term commitment and partnership from ADB
- Cooperation with other development banks (World Bank)
 - World Bank supports shared growth orientation
 - Priority sector areas: labor market (education), rural-urban divide (infrastructure, migration), social protection, subnational work
 - New challenges: more careful in infrastructure and more focus on PPPs and guarantees, technological innovation, mobility, trade and integration, global public goods (environment)
 - World Bank uses knowledge from upper MICs (MAL, KOR) and outside of the region (Latin America) and shares with emerging MICs
 - MICs like PRC want strong lending bundled with knowledge; as they emerge as donors also new cooperation modalities need to be set up
 - In lower-income MICs (like PHI, INO) World Bank provides predictable resource flow with analytical work on issues of social protection, governance, and increasingly at subnational level
 - World Bank does not have predetermined institutional sector concentration; rather its decentralized structure allows the World Bank to reply fast and with good knowledge to quickly changing country demands
 - In small and fragile states (especially in the Pacific) the World Bank does not find itself as the largest donor (AusAid in general is) and thus is strategic in its engagement with a heavy focus on technical and policy advice
 - There are good reasons for more institutional competition; huge country demands and diverse approaches within the same sector do not require pre-determined sector allocations between World Bank and ADB
- Strategic comparative advantage bilateral donors (DFID)
 - There is a strategic shift in DFID towards pro-poor and inclusive growth
 - That requires strengthening growth diagnostics
 - Social sector investment need not only be pro-poor but also contribute to inclusive growth
 - New needs for knowledge: governance and institutions, MDG and inclusive growth, gender dimensions, labor markets and skills, regional dimensions of inclusive growth, low-carbon growth path, social inclusion and social protection

- The role of technical assistance and cooperation with the UN system
 - There is need for pro-MDG growth
 - That would require more focus on the implications of infrastructure support to the MDGs and
 - More focus on rural areas
 - ADB-ESCAP-UNDP partnership on MDGs is very helpful

Session 9: Consequences for ADB

- ADB has a huge opportunity to undertake a major transformation to meet the changing demands of the Asian region. If it doesn't transform itself, it should close
- The old ADB, with a core focus on large-scale infrastructure, was well-aligned with the needs of the region,
- ADB's move towards poverty reduction in 1999 is not yet mainstreamed in ADB; it adds value to the current needs of the region. The current discussion on inclusive growth underlines a broader conception of well-being with opportunities for all, but priority outcomes for the most deprived. This distributionally weighted welfare across the whole population is the right approach for the New Asia
- The changed environment in the "New Asia" requires revised goals and this generated a fundamental misalignment in ADB between the right goals (to move to inclusive growth), and ADB activities which are misaligned with this new goal. This is also highlighted in the Expert Persons Group report (May 2007) on ADB's future orientation. ADB has however internal capacities that make for the new transition.
- ADB thematic focus should include inclusive growth, the environment, and regional engagement. However ADB should get involved only in areas where it can make a difference through acting where markets and governments fail
- The new Asia requires ADB to (a) remain involved in poverty pockets at subnational level with a specific focus on poor countries, and (b) engage newly in emerging market countries in areas where ADB can make a difference; these areas are increasingly in the environment and social fields..
- In poverty pockets ADB shall continue working with national governments. But But becoming more relevant for the future Asia requires a very non-traditional way of working. In fragile states, ADB should also get involved in governance and institutional issues.
- In the new emerging market countries, ADB support to the following sector areas were suggested:
 - Infrastructure challenges where markets and governments fail
 - Liveable cities (for people and firms)
 - Lagging regions, and rural development
 - Comprehensive risk management structures
 - "Competitive" education systems (quality/tertiary)
 - Innovation systems
 - Financial inclusion
- However in most of these sectors ADB needs to develop its capabilities first. Whatever the sector choice will be, ADB need to do things differently in the future than it is doing them now.

- In addition, ADB shall develop new cross cutting capabilities to better align market demand and its own effectiveness. In particular
 - ADB should become a more learning, knowledge-based, and nimble institution that supports long-term institutional building and evaluation systems
 - ADB should develop capacities to be a strategic player in inter-country interactions, and
 - It should bundle knowledge with finance and therefore develop new financial instruments
- There is pressing need for transformation within ADB and better aligning the right new goal (i.e. inclusive growth) with sector activities and internal capabilities. ADB need to work out in a transparent process what to do and how to implement transformation.