



Forum on

Inclusive Growth and Poverty Reduction in the New Asia and Pacific

8-9 October 2007 • ADB, Manila, Philippines



Summary Recommendations

A. INTRODUCTION

1. An well received international Forum on [Forum on Inclusive Growth and Poverty Reduction in the New Asia and Pacific](#) was held in Manila on 8-9 October 2007 with over 150 participants, including 70 influential policy makers and experts from government, academe, civil society, and international and bilateral aid organizations. The Forum discussed issues such as pro-poor infrastructure needs, the role of urban and rural development, the financing and delivery of social services including social protection, environmental poverty, geographical targeting, and how ADB can address social exclusion.
2. The Forum's outcomes are expected to contribute to the ongoing review of ADB's Long-Term Strategic Framework and discussions concerning replenishment of the Asian Development Fund. This paper summarizes key Forum discussions and recommendations. It is supplemented by the following attachments: (i) Keynote Paper (by Professor Michael Walton, Harvard University) with strategic recommendations for ADB; (ii) Highlights of Conference Discussions; and (iii) Concluding Presentation (by Professor M. Walton)¹.
3. The Forum's overall conclusion was that there is a pressing need for transformation within ADB and better alignment of inclusive growth as strategic goal with the operational activities and internal capabilities so that the institution can continue to play an important role in supporting Asia's socio-economic development. In this context, there was broad agreement among Forum participants concerning the analysis provided earlier this year by the Eminent Persons Group (EPG) regarding future challenges and changing demands in the region. But several participants suggested that the report's operational recommendations did not align well with these future challenges and changing demands. Participants suggested that a better alignment could be achieved if ADB's operations were particularly focused in those development areas where markets and governments fail and where ADB has or can develop capacities to make a difference.
 - In poorer countries, this will often involve continued support to central governments in governmental provision of infrastructure and social services.
 - However, in emerging market countries, this will increasingly involve a mix of financial and knowledge-related services that tackle the more complex challenges of inclusion of lagging regions or groups in both social and economic development, developing comprehensive mechanisms for managing security, financial inclusion and the management of environmental concerns.
 - The contribution can be through support, knowledge, or helping shape the strategic interactions that lie behind the design of policies and economic institutions. The *bundling* of knowledge with finance is often important to its effectiveness.
 - The Forum also suggested that increasing attention be given by ADB to supporting development activities at the supra-national and sub-national levels to have greatest development impact.

¹ The Forum produced a series of expert papers on various inclusive growth and poverty reduction related topics. All papers can be found at the Forum website: <http://www.adb.org/Documents/Events/2007/Inclusive-Growth-Poverty-Reduction/>.

4. The Forum also launched the 2007 Update on the Millennium Development Goals² and discussed the findings of the NPRS and PRF poverty funds³, to be closed at the end of the year.

A. DEVELOPMENT CONTEXT

ADB Vice President Ursula Schaefer-Preuss highlighted the two faces of Asia: one of unprecedented economic success and reduced income poverty, and the other one of persistent social and environmental poverty and rising inequality, especially in rural areas. She identified important new challenges for inclusive growth and poverty reduction in the region that will be driven by climate change, demographic transitions, and migration. Against this background, the conference discussed how a new inclusive growth strategy of ADB could be operationalized to more effectively address persistent poverty, new vulnerability and sustainable growth through better social inclusiveness.

5. “The Asian region is going through a period of dramatic change. ADB’s traditional lines of activity and ways of doing business will be of declining importance. While the old ADB, with a core focus on large-scale infrastructure, was well-aligned with the needs of the region, changed environment in the ‘New Asia’ requires better alignment between its emerging new strategic goal, ADB’s activities and capabilities”, said Harvard University’s Michael Walton in his keynote presentation.

C. STRATEGIC GOAL

6. In his keynote address, Professor Walton said that ADB’s move towards poverty reduction in 1999 was valuable but was not further mainstreamed in the institution later on. Efforts for poverty reduction adds value to the current needs of the region and should be continued. While poverty reduction should perhaps remain the overarching goal of ADB, making growth in the region more inclusive could become the strategic focus. Inclusive growth underlies a broader conception of well-being with opportunities for all, but priority outcomes for the most deprived.

7. It was suggested by participants that this distributionally weighted welfare across the whole population is the right approach for the New Asia and Pacific. Participants repeatedly pointed out the importance for ADB to keep abreast of balancing “D” (development) in ADB with the “B” (banking), although such balance should depend on the specific demands and situations in ADB’s respective borrowing member countries. Participants generally agreed that ADB is well advised to choose inclusive growth as a new long-term approach to its overarching goal of Poverty Reduction.

8. Participants particularly liked ADB’s broad-based welfare as shown in a quote of ADB’s website: “The work of the Asian Development Bank (ADB) is aimed at improving the welfare of the people in Asia and the Pacific, particularly the 1.9 billion who live on less than \$2 a day. Despite many success stories, Asia and the Pacific remains home to two thirds of the world’s poor.”

² This is a joint publication as part of the ADB, ESCAP and UNDP partnership. The report is available at <http://www.adb.org/Documents/Reports/MDG-Update-2007/MDG-Update-2007.pdf>. The book launch was widely covered in the international press.

³ The National Poverty Reduction Strategy fund (NPRS) was financed by the Government of the Netherlands. The Poverty Reduction Cooperation Fund (PRF) was financed by the Government of the United Kingdom of Great Britain and Northern Ireland. For more information on ADB’s poverty reduction funds, view <http://www.adb.org/poverty/special-funds.asp>

D. OPERATIONAL ACTIVITIES

9. Forum participating experts found that "... the "old" ADB in the decades to the 1990s, with its core focus on large-scale infrastructure, had good alignment between goals, activities and capacities. The addition of a poverty focus in the 1990s undoubtedly delivered a lot of value, but was not associated with a transformation in ADB's organization. The changed environment in the "New Asia" requires revised goals and this has generated a potentially major misalignment absent changes in activities and capacities. The Eminent Persons Group Report is internally misaligned: it has sound and important recommendations on ADB's goal or "strategic directions", makes excellent general points on capacities, but its proposed activities are largely misaligned with the strategic directions..."

10. The overall consensus that appeared to emerge after two days of discussions was that, in operationalizing inclusive growth, ADB needs to be more responsive to the needs of, and future challenges in, the region. Rather than deepening its involvement in sectors where the institution was well aligned with in the past (esp. large-scale infrastructure and the core financial sector), the New Asia requires a major transformation and a more flexible strategic approach.

11. The following sections summarize the consensus that appeared to emerge among Forum participants on various aspects of ADB's future operations.

1. Geographical Focus

12. The New Asia requires ADB to remain involved in poverty pockets at the sub-national level with a specific focus on poor countries. In these countries, ADB operations should focus on promoting pro-poor growth (including provision of infrastructure) and inclusive social development (financing of social and other programs). Special efforts should be made to include the small economies and fragile states. In fragile states, ADB should also get involved in governance and institutional issues.

13. In addition, ADB should engage in the newly emerging market countries (middle income countries, MICs) in areas where ADB can make a value-added impact. Increasingly, these areas are in the environment and social fields as well as in filling crucial infrastructure gaps through facilitating improved cooperation between the public and private sectors.

14. The participants suggested that ADB in the emerging MICs will increasingly need to work with local governments in poverty stricken areas. For example, a participant from Pakistan emphasized that working at the sub-national level can offer more inclusive forms of cooperation for ADB than central social service delivery systems.

15. Regional cooperation between countries should also focus more on cross-border poverty related issues, as the majority of the core poor are living in such areas.

2. Thematic and Cross-cutting Priorities

16. For inclusive growth, Forum participants asserted that environmental management, regional (both sub-national as well as between countries) cooperation, and partnerships with the private sector would become increasingly important. They also suggested that to achieve greater equity and inclusion, it will be very important that sufficient support be directed at governance reforms that make institutions more inclusive and accountable. ADB will also need to get increasingly involved in making social and political development more inclusive. Furthermore, ADB's role as a

knowledge institution was considered increasingly important for the future. Hence, the Forum suggested not to limit ADB's thematic priorities to 3 as suggested by the EPG report, but keep the current priorities and add knowledge management.

17. The Forum disagreed with recommendations in the EPG report to narrow the environmental outcome contributions to the energy sector. Rather, participants suggested that water and land management should be considered as major areas of climate change impacts, and addressing urban pollution and congestion as other important environmental objective.

18. With regards to regional development, the Forum suggested ADB broadening its strategic intervention towards both the activities between economies (supra-national level) as well as the decentralized level (excluded regions within a country).

19. The participants noted that market and government failures most often occur among socially excluded groups. They suggested that ADB should and can strengthen inclusion of excluded social groups by promoting fair processes related to (i) land and property title; (ii) civil registration and other legal identification; (iii) community empowerment; and (iv) promotion of civil society participation in building accountability mechanisms. It was widely agreed that ADB would have no choice but to more seriously address social inclusion if it incorporates inclusive growth as a strategic goal. ADB's capacity to analyze the political, cultural and social contexts of economic policies and programs needs to be strengthened.

20. To underscore the points made above, the Honorable R. L. Neri asserted that "... the lack of strong and credible institutions is a major challenge to inclusive growth in Asian countries like the Philippines. Poverty persists because the poor face too many risks mainly related to their political and institutional power. Knowledge products related to poverty reduction can be more valuable than financial assets, and ADB can have a comparative advantage vis-à-vis private sector investments and money from neighboring countries if it becomes more sophisticated in its support for better institutional frameworks."

3. Sector Focus

21. With the region rapidly changing, it was suggested that ADB not take a sector focus that is too narrow. Rather, sector areas and issues could be identified and the actual sector intervention left to country demand.

22. In the emerging MICs, ADB support to the following areas were suggested:

- **Infrastructure** challenges where markets and governments fail. Infrastructure support is particularly important in rural areas and for facilitating migration to secondary cities. There will be increasingly less need—and less demand—for traditional support to large-scale infrastructure, i.e., support with primarily an engineering focus. Rather, ADB should apply a new approach to infrastructure, including pro-poor design, more emphasis on local (and people's) maintenance, better infrastructure governance, and structuring complex contractual private-public partnership arrangements. When identifying potential infrastructure support projects, ADB should increasingly give priority to those projects that will contribute to non-income MDGs. Particularly in the infrastructure sector with

- large financing needs ex-ante poverty impact assessment would be an important tool for ADB to show its contribution to development outcomes.⁴
- **Livable cities for people and businesses:** The conference found increasing need for investments beyond water and sanitation, especially in urban housing and shelter, public transport and other urban utilities. This would require ADB to upscale its partnerships with the private sector and invest more in infrastructure services rather than just facilities.
 - **Lagging regions and rural development:** Asia's poor live mainly in rural areas, so inclusive growth demands strong support for rural development. ADB's apparent de-emphasis of support for the agriculture and natural resources sector would not support inclusive growth. ADB increasingly should target its infrastructure, education and urban development investments at rural areas. This would also help to address the region's serious and growing migration issues. ADB should also consider supporting agricultural and rural sector productivity enhancement as well as investments in agricultural research relevant to the poor.
 - **Comprehensive risk management structures:** This comprises not only financial risks, but also long-term lending risks of local governments and environmental risks related to climate change and natural and man-made catastrophes. Social protection and insurance can address risks of falling into poverty due to old age, high health costs, insufficient cash, and social exclusion. This was highlighted by several participants as a particularly important area in which ADB can make a significant development impact while also substantially increasing its business, especially in emerging MICs.
 - **"Competitive" education systems:** Participants suggested that ADB can potentially make a difference in a range of areas affecting inclusion. "Key is rising productive employment where the poor live and work", according to Duncan Campbell from ILO. This would require rising the demand for unskilled worker through more investment in labor market relevant education and at the same time mitigating the poor's risk through mitigating redistribution through social protection and targeted programs. While education is important, the conference also suggested the need for continued involvement in health system reforms and financing (especially insurance). "We need a massive increase in social sector spending, and high growth rates and tax reforms in emerging middle income countries provide new fiscal space" according to M. Govinda Rao, Member of the India Prime Minister's Economic Advisory Council.
 - **Financial inclusion:** Generally, Forum participants questioned the need for ADB to remain involved in core financial systems. They also questioned ADB's move towards coordinating international financing. Rather, they felt that ADB should support financial markets that more directly address risks of the poor and financial inclusion. This would include microfinance, microinsurance, micro-equity and guarantee investments in small industries, promoting social stock exchange, and engaging the private sector in "bottom-of-pyramid" funds. The role of ADB in partnering with the right grassroots organizations and local private sector entities was considered important in achieving this.
 - **Addressing rural and urban environmental poverty as well as climate change:** ADB can make a particular contribution to overcoming environmental

⁴ Under the OECD-DAC bilateral donors in mid 2007 agreed on such a tool together with the World Bank.

poverty, which is poised to overshadow conventional poverty. This is an area where policy design and implementation is complex, and where the pooling of regional expertise and experience will likely continue to play a role.

E. ADB'S INTERNAL CAPABILITIES TO ALIGN WITH INCLUSIVE GROWTH

23. The Forum made various suggestion for ADB to need being a stronger knowledge institution capable to exchange expertise and new thinking from within and outside the region. ADB should become more of learning, knowledge-based, and flexible institution that supports long-term institutional building and evaluation systems. This would require strengthening its capacities to be a strategic player in inter-country interactions; and bundling knowledge with finance and therefore develop new financial instruments.

24. Some participants asserted that whatever sector priorities emerge from the process of narrowing its operational focus, ADB will need to do things differently in the future. This especially applies to the social sectors, where ADB has to be more flexible, faster in replying to country demand, and offering better international knowledge, especially in the MIC context. The cost of borrowing was considered secondary. However, in most sectors ADB needs to develop its capabilities first. The conference suggested that ADB capacities are not yet fully aligned with the new priority areas.

25. In his closing presentation, Professor Walton pointed out the centrality of the organizational transformation, which involves new skills, improved accountability structures and an organizational culture that supports innovation, change and knowledge.

26. ADB would also need new instruments to finance inclusive growth, particularly when special poverty reduction with ADB are running out of bilateral grant financing.

Attachments:

Attachment 1: Keynote Address by Michael Walton

Attachment 2: Highlights of Conference Discussions