

# ADB

## NEWS from ERO

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# ADB's 15-Year Plan for All-Out Assault on Poverty

New Long-Term Strategic Framework Integrates with International Development Goals for Poverty Reduction

On 14 March, the Asian Development Bank (ADB) launched its new Long-Term Strategic Framework (LTSF) to help the developing nations of Asia and the Pacific eradicate extreme poverty by 2015. The LTSF is embodied in a new document, "Moving the Poverty Reduction Agenda Forward in Asia and the Pacific," that spells out ADB's plans and priorities.

The LTSF is a major reassessment of ADB's goals and policies that two years ago resulted in the announcement that extreme poverty for one in four Asians was an unacceptable human condition, and that poverty reduction would be the overarching goal of all ADB activities. It sets out an agenda for carrying out the poverty reduction strategy in the next 15 years.

To enhance its effectiveness and to remain relevant to the changing needs of the region, ADB has continually been adapting its priorities, assistance modalities, and organizational structure. ADB first reoriented its operational priorities in the early

1980s. This was followed by a change in the 1990s that resulted in more emphasis on social infrastructure projects that targeted the poor and projects to improve the environment.

The Asian and Pacific region has continued to change in profound ways since ADB formulated its earlier long-term strategy a decade ago. The context in which ADB will operate over the next decade or so will be dramatically different from that of the 1990s. The challenge of reducing deeply entrenched poverty in the region remains more daunting than ever, and requires new approaches and commitments.

ADB has integrated its new long-term strategy with the International Development Goals, seven broad benchmarks for reducing poverty worldwide by 2015 that were agreed upon at a series of United Nations-sponsored world conferences during the past decade. "ADB has chosen a 15-

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# Institutional Change in East Asia

Headline news do not encourage optimism about East Asia. Implementing reform measures is difficult, particularly in the financial and corporate sectors, and mounting concern over global slowdown clouds the quick economic recovery that offered promise in late 1999 and early 2000. However, significant changes are unfolding—changes that impact on the institutional underpinnings of economic management and social development. It is institutional building and the capacity of a society to bring about institutional change that will determine winners and losers in that part of the world.

**Institutions as rules.** Douglas North, the Nobel Laureate, made clear that *institutions are the rules of the game in a society*. They define, for example, a system of property rights; regulations that curb the worst forms of fraud and anticompetitive behavior; the rule of law; and sociopolitical arrangements that mitigate risk and manage social conflicts. Characteristically, each rule performs a distinct function but its effectiveness hinges on being complemented and supplemented by others. Together, they form a hierarchic structure of mutually supporting directives that influence jointly and can impact decisively the development of nations.

At the top of this institutional hierarchy is a set of policies that marks out the workings of an economy in the short term. Next comes a set of regulations that should support the functioning of markets, while legal codes and other laws that define property and other rights would in turn underpin this regulatory system. These should be founded on transparent institutions such as the judiciary that would enforce the long-term security of property rights and adjudicate claims of right violations. And, all these layers would be supported by base institutions that foster political participation and external enforcement, and maintain civil and social order. This perspective of seeing institutions in a hierarchic order (with respect to their social and economic functions) offers important insights into the process of reform and restructuring now taking place in East Asia.

**Realigning institutions.** First, a realignment of institutions, following the hierarchy outlined, is a significant feature of

a process of reforms. Changes in one set of policies or institutions lead typically to the need to overhaul related institutions. This process can be observed in the series of changes taking place as the countries affected by the Asian crisis attempt to deal with corporate debt restructuring. For example, the problems of corporate debt overhang and insolvency have led to measures for financial liquidation and bankruptcy proceedings that have also required changes in existing laws and judiciary systems. And new rules on corporate governance are being developed to improve standards of corporate practice. Overall, the crisis has accentuated the importance of institutional change and

the need for more. One important area concerns social protection systems.

In the past, governments in the region relied heavily on growth to resolve social welfare questions. They invested in human capital but provided limited formal social insurance. Still, the severe social dislocations caused by the crisis tested the limits of this approach. They generated debate over the need to revise the implicit social contract between the state and society to cushion more social groups from future shocks. The debate centered on new institutional responses for provision of social insurance, reform of industrial relations and labor market issues, education, decentralization, and persistent or structural poverty.

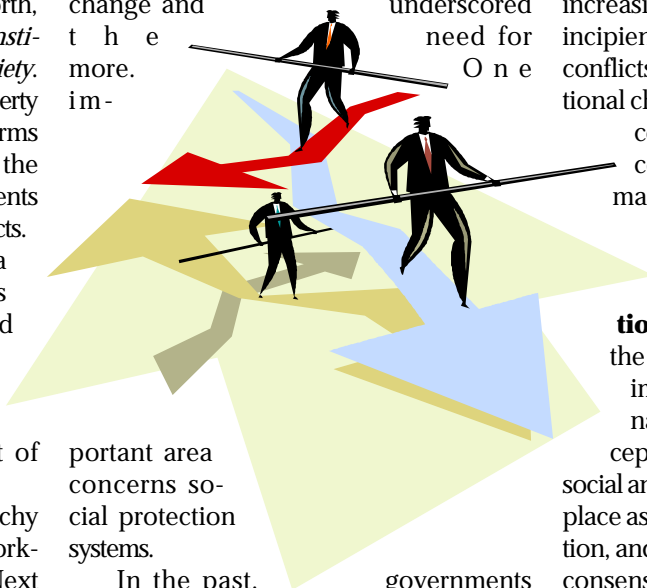
**The time dimension of institutional change.** Time lags between initiating changes and achieving their ultimate impact can be long. Governance reforms can be especially time-consuming because of vested interests. Changes at lower layers

of the institutional hierarchy will take longer to make themselves felt. Since various institutions evolve at different speeds, conflicts and contradictions among them will arise. Depending on the institutional circumstances, some can be addressed smoothly while others cause major and sometimes violent frictions.

Indonesia is perhaps the most pronounced example. But, paradoxically, the political and social difficulties observed in that country are part of the painful process of institutional reform. Despite the many problems it faces, post-crisis Indonesia is more transparent than before and demand for broad participation in policy making is increasing. Indonesia needs to sustain its incipient economic recovery and manage conflicts over changes. The scale of institutional change is massive and the process is complex. A key challenge facing the countries affected by the crisis is to manage the institutional realignment while minimizing the associated social costs.

**Strategies for institutional change.** Popular views—that the policy changes and reforms being implemented in East Asia are externally driven—reveal misguided perceptions. Institutional change is part of social and economic transformation. It takes place as a process of evolution and adaptation, and it involves broad participation and consensus building. No one set of institutional arrangements can be claimed as superior to the others in terms of overall performance. Strategically, institutions need to be developed locally, based on local knowledge and hands-on experience and experimentation. In the past, East Asian countries have shown a remarkable capacity for adapting to and undertaking institutional change. The crisis is not and should not lead to rejection of what made East Asia a success and the institutional capacity that was built along the way. This capacity to initiate and facilitate change needs to continue—if only because transformations are taking place regionally and globally.

**Regional responses for institutional change.** Since the crisis, countries in the region devote more attention to the regional aspects of institutional building, an area in which European countries have much experience. Besides the Association of



■ **The scale of institutional change is massive and highly demanding** ■



Southeast Asian Nations and the Asia-Pacific Economic Cooperation (which were already in place prior to the crisis), new regional initiatives are being pursued. These include the creation of the Manila Framework Group, the formation of the ASEAN regional surveillance process, and the Chiang Mai Initiative for an expanded regional currency-swap network. These intensified efforts at regional cooperation in East Asia reflect growing awareness of the need for joint institutional approaches to deal with issues of common interest. In general, promoting greater regional cooperation enables the participating countries to explore jointly economic opportunities and gain from complementarities. A regional approach is also effective in tackling cross-border problems arising from security conflicts, environmental issues, drug trafficking, and migration. Addressing these issues at the regional level will help contribute to global security and prosperity.

**Conclusion.** The challenge of institutional change in East Asia is demanding.

Effective management of the changes will pay off because, in the end, institutional capacity to do so will decide whether a country succeeds in bringing lasting prosperity to its people. The multilateral development banks are important partners in this process of change. They need also to address a key internal institutional issue—how to balance the role of development banker and that of institutional development advisor.

*This article is adapted from *About Institutions*, a speech that Geert van der Linden, Director, Programs Department (East), Asian Development Bank delivered at the IIA Chatham House Conference on East Asia: Has Reform Revived the Miracle? held in London on 19-20 March 2001.* ■

## Seventh ADB-OECD Forum on Asian Perspectives Set on 18-19 June

**Technology and Poverty Reduction in Asia and the Pacific**

**T**echnological change, together with capital accumulation, is at the heart of long-run growth in per capita income. Growth, in turn, can—but not always—dramatically reduce poverty. Whether growth and technological change can contribute to poverty reduction depends on a variety of circumstances, notably the social, institutional, and policy context in which technology develops and spreads between and within countries.

The objective of the Seventh Forum on “Technology and Poverty Reduction in Asia and the Pacific” is to examine how technological improvement can play a role in poverty reduction, focusing not only on the rate of improvement but also on the direction of the improvement. The Forum will address how biotechnology can benefit the poor, how information and communication technologies can contribute to poverty reduction in Asia, and what strategies can support technology diffusion to Asia’s poor. ■

## Private University Will Improve Quality of Higher Education in Viet Nam

**T**he Asian Development Bank will establish the first world-class university in Ho Chi Minh City with the help of a US\$7.5 million loan approved on 26 April. The Royal Melbourne Institute of Technology (RMIT) International University Viet Nam (RIUV) will provide courses in areas of information technology, engineering, and business administration—skills in great demand, but of low availability. In addition, the University will provide teacher, industry, and English training. The RMIT of Australia will sponsor the University and guarantee high-quality teaching.

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# Output Accomplishment and the Logical Framework



The logical framework approach neither guarantees a good project design nor replaces other instruments of project management. But it helps to:

- Analyze the situation existing during project preparation;
- Set objectives;
- Establish a logical hierarchy of means by which objectives will be reached;
- Identify clusters of project outputs;
- Determine how accomplishments might be monitored and evaluated;
- Flag the assumptions on which a project is based; and
- Summarize a project in a standard format.

The logical framework also supports creative analysis. It is a rare project that unfolds exactly according to plan. During project administration, one must pay close attention to the cause-and-effect relationships between activities, outputs, and component objectives. Repeatedly, one must make certain that inputs for activities are deployed successfully. Or one must adjust the means of attaining component objectives, including the definition of outputs, the mix of activities, and the indicators derived to measure the newly defined targets. Administration can become complex and it helps to have structure.

Because of this, I deepened and extended the logical framework approach using the template shown below. (It lists here only two targets per output). For each component, I examined methodically whether targets were being achieved, how the activities were being implemented, and how activities could be improved. I then itemized individual action plans, which I monitored constantly.

I found that systematic analysis of output accomplishment led to telling improvements in efficiency, effectiveness, and relevance. It clarified materially the chain of causality in a project design. Our readers may wish to try this approach, bearing in mind that a logical framework matrix is not set in concrete. Tell us what you think. ■

## Analysis of Output Accomplishment and Improvement of Activities

Component			No.
Output			No.
Targets			No.
			No.
Is the output being accomplished?	Yes	Partially	No
Are the targets being achieved?			
No.			
No.			
How are the activities being implemented?			
Strong Point		Weakness	
No.		No.	
No.		No.	
How can the activities be improved?			
Proposed Change		Justification	
No.		No.	
No.		No.	

## The Logical Framework Matrix

Project Description	Targets	Means of Verification	Assumptions
<b>Goal:</b> The broader impact of the project at a national and sectoral level	Measures of the extent to which the project has contributed to the goal	Sources of information and ways to gather and report it	
<b>Purpose:</b> The expected outcome at the end of the project	Conditions at the end of the project indicating that its purpose has been achieved	Sources of information and ways to gather and report it	Assumptions about the purpose-goal linkage
<b>Component Objectives:</b> The expected outcome of accomplishing each component's outputs	Measures of the extent to which component objectives have been accomplished	Sources of information and ways to gather and report it	Assumptions about the component objective-purpose linkage
<b>Outputs:</b> The direct results of the project (works, goods, and services)	Measures of the quantity and quality of outputs and the timing of their delivery	Sources of information and ways to gather and report it	Assumptions about the output-component objective linkage
<b>Activities:</b> The tasks executed to deliver the outputs identified	Implementation and work plan targets	Sources of information and ways to gather and report it	Assumptions about the activity-output linkage

Olivier Serrat, Liaison Officer, European Representative Office, Asian Development Bank contributed this article.

# New Indonesia Strategy Stresses Linkage to Reforms

The Asian Development Bank (ADB) is prepared to lend Indonesia between US\$600 million and US\$1.2 billion annually over the next three years, subject to the country's improved performance in key areas of reform such as reducing poverty and improving governance and macroeconomic stability. ADB's actual level of assistance will depend on Indonesia's performance, absorptive capacity, and financing needs: ADB stressed that Indonesia will only qualify for assistance at the higher end of the lending range after it meets the following conditions:

- Appropriate measures to improve macroeconomic stability;
- Progress in reducing poverty;
- Resolution of difficulties of decentralization and creating real decision-making capability at local government level; and
- Improvement in implementation of ADB projects to ensure more efficient use of lending resources.

The lending level is part of ADB's new Country Operational Strategy for Indonesia, which focuses on the crucial need for policy reforms and identifies five key areas that will guide its assistance:

- Helping to create and strengthen

institutions;

- Promoting private sector development;
- Improving regional equity through stronger geographical focus on rural and less developed areas;
- Investing in human and social development, with better social protection of vulnerable groups; and
- Strengthening environmental management.

The new strategy builds on ADB's recently completed *Poverty Assessment for Indonesia*. This report stresses the importance of sound macroeconomic management and financial sector reforms and the need for good governance and sustainable management of the country's natural resources and environment.

"ADB would be flexible and responsive to the country's changing political and economic conditions over the next three years and continue to support policy reforms. However, without improved governance, ADB's programs will not have a sustainable impact on poverty," said Jan P.M. van Heeswijk, Director, ADB Resident Mission in Indonesia.

Indonesia is one of ADB's major clients, borrowing some US\$1.2 billion annually before the economic crisis in 1997. During

the crisis, lending commitments increased substantially to US\$1.8 billion in 1998 and US\$1.5 billion in 1999. To date, Indonesia has borrowed nearly US\$17.7 billion to finance key development projects.

Indonesia has experienced extraordinary upheavals in recent years, and the economic crisis has jeopardized past success. "At the peak of the crisis, an additional 15 million people fell below the poverty line, showing the vulnerability of the poor to economic shocks," said van Heeswijk. During the crisis, ADB provided assistance in close cooperation with other international funding agencies to support the Government's recovery programs. The new country strategy provides a fresh starting point that includes a more participatory approach to meeting the extraordinary challenges that face the people and Government of Indonesia.

In another development, ADB plans to sign a milestone poverty reduction partnership agreement with Indonesia this year. "This will be a big step in implementing the new country strategy for Indonesia, added van Heeswijk. ADB is entering such partnerships with every developing member country and has already signed agreements with Bangladesh and Mongolia. ■

## Emergency Aid to Rebuild Earthquake-Hit Gujarat

The Asian Development Bank (ADB) will rebuild earthquake-devastated Gujarat in India with the help of a US\$500 million emergency loan approved on 26 March. To ensure prompt and efficient implementation of the rehabilitation project, ADB has established an extended office at Gandhinagar, close to the earthquake-affected areas.

The loan will support the state government's efforts to reconstruct and restore essential infrastructure, especially in the districts of Kachchh, Jamnagar, Surendranagar, and Rajkot. About 40 percent of the loan will be for addressing housing needs and the balance for urban and rural infrastructure, restoring power supply, and providing livelihood rehabilitation.

"ADB's quick action in reply to the state government's appeal for assistance reaffirms our flexibility and responsiveness to the country's changing economic and social conditions," says Yoshihiro Iwasaki, Director, Programs Department (West) who had led a team of high-level officials from headquarters in Manila to Gujarat within days of the catastrophe to discuss assistance with the state government. In addition, ADB had also dispatched a team of experts to assist the state government.

The new ADB office, an extension of its New Delhi-based Resident Mission, will provide better coordination in implementing the Project. "The extended office will strengthen our client orientation as the Project focuses on early restoration of

economic and social activity in the affected areas," says Frank Polman, ADB's Resident Representative in India.

On 26 January, an earthquake measuring 7.7 on the Richter scale wreaked destruction across the industrialized state of Gujarat. Thousands were killed and thousands more were left homeless. The total cost of ADB's project for Gujarat Earthquake Rehabilitation and Reconstruction is US\$625 million, of which ADB will finance 80 percent. The state government will finance the remainder. ADB's loan will come from its ordinary capital resources and is repayable over 30 years, including a seven-year grace period. The interest rate will be ADB's pool-based variable lending rate for US dollar loans. ■



## Canadian Fund to Manage Climate Change

The Canadian Government has agreed to establish a Fund on climate change to reduce the growth of greenhouse gas emissions in the Asian and Pacific region. The Canadian Cooperation Fund will have an initial Can\$5 million (US\$3.2 equivalent) and will be administered by the Asian Development Bank (ADB).

This is Canada's first Fund with ADB and its first related to climate change. It will enable ADB to help its developing member countries promote renewable energy and energy efficiency at programming and policy levels to manage and abate climate change. The Canadian assistance dovetails with ADB's recently announced Long-Term Strategic Framework that addresses environmental sustainability by putting environmental planning at the forefront of development planning—one of ADB's three crosscutting strategic themes to broaden and deepen the impact of poverty reduction interventions. The Fund will assist projects with potential access to treaty mechanisms, including the Global Environment Facility and Clean Development Mechanism. It will also support activities relating to carbon sequestration and adaptation to climate change. Grants from the Fund will be used for project preparation, training and advisory services, institutional support, or other technical assistance services. This will be the first Canadian Trust Fund at a multilateral development bank from which grants will be provided on an untied basis.

Although ADB's developing members are eligible for the Fund, priority will be given to the People's Republic of China and India to reduce greenhouse gas emissions; Indonesia for carbon sequestration; and the Pacific Islands for operations to adapt to climate change. The Fund reflects Canada's aim to contribute toward poverty reduction in the region through policy dialogue and collaborative programming with ADB supporting in managing climate change. ■

## ADB's 15-Year Plan

(continued from page 1)

year timeframe for its new LTSF," says Shoji Nishimoto, Director, Strategy and Policy Department, "because it correlates with the schedule for achieving the International Development Goals. ADB has been playing and will continue to play a large role in helping its developing member countries reach these goals." The International Development Goals are to:

- Reduce the incidence of extreme poverty by half between 1990 and 2015;
- Achieve 100 percent primary school enrolment by 2015;
- Eliminate gender disparities in primary and secondary education by 2005;
- Reduce infant and child mortality by two thirds between 1990 and 2015;
- Reduce maternal mortality ratios by three quarters between 1990 and 2015;
- Expand access to reproductive health services to all women by 2015; and
- Implement in all countries a national sustainable development strategy by 2005 and to reverse the loss of environmental resources by 2015.

### ■ Moving the poverty reduction agenda forward in Asia and the Pacific ■

ADB's agenda for advancing the poverty reduction strategy recognizes three core areas of intervention:

- *Sustainable economic growth*: broad-based, growth-promoting activities that enhance socially and environmentally responsible development;
- *Inclusive social development*: investments in social support programs, and for equity and empowerment, especially for women and disadvantaged groups; and
- *Governance for effective policies and institutions*: support for public sector management, legal and judicial reform, and public accountability and procedures to give stakeholders more effective participation in decision making.

These three core areas are complemented by three crosscutting themes to broaden and deepen the impact of the core poverty reduction interventions:

- *Promoting the role of the private sector in development*, in consonance with

the private sector development strategy adopted by ADB last year, and including the mobilization of private sector resources to address the challenges of development;

- *Supporting regional cooperation and integration for development*, to provide wider development options, address shared problems, and pool information; and
- *Addressing environmental sustainability*, by putting environmental considerations in the forefront of development planning, and reversing the enormous and costly environmental degradation and damage that have already occurred.

The LTSF reflects ADB's position as the only multilateral bank in Asia and the Pacific with a regional focus, and will emphasize ADB's role as a broad-based development institution. "The development challenges of the region are far beyond the capacities of any one institution," says Nishimoto. "The LTSF will enable us to be selective in our investments and to take a long-term approach: to focus our resources on the things we do best and to be more efficient in our operations." Greater selectivity in operations will be accompanied by a much stronger country and client focus, and this will be achieved through stronger country leadership and ownership of the development agenda. ■

## ADB Opens NGO Center

Improving communication with civil society a key function

The Asian Development Bank (ADB) has launched a nongovernment organization (NGO) Center to strengthen its cooperation with civil society and to integrate better the experience and knowledge of NGOs into ADB operations. Strengthening cooperation with civil society—and specifically with NGOs—is expected to improve the effectiveness, sustainability, and quality of services that ADB provides to its developing member countries. ■

For more information on how ADB works with NGOs, contact Robert Dobias. Tel.: (632) 632-5337, E-mail: [rdobias@adb.org](mailto:rdobias@adb.org), or go to <http://www.adb.org/NGOs>

# New Pacific Strategy Unveiled

ADB's Strategy Will Help Streamline the Public Sector and Boost the Private Sector

The Asian Development Bank's (ADB's) Pacific Strategy for the New Millennium, which was approved on 20 March, will focus on helping Pacific developing countries streamline their public sectors and boost private sector investment.

"Our next phase of reform support will concentrate on public sector efficiencies and promoting the private sector. These are critical areas which will create more jobs and raise incomes and the quality of life," said ADB's co-manager of Pacific Operations Division, Cedric Saldanha. He noted that the first phase of reforms in the 1990s focused on macroeconomic stability and good governance, following the fiscal crises many countries faced in the early 1990s.

The Strategy responds to five key challenges facing Pacific Island nations:

- Vulnerability because of remote location and a narrow resource base, and susceptibility to natural disasters and global markets;
- Political instability and poor governance;
- Limited skilled human resources;
- Sociocultural factors that affect politics and productivity; and
- Inadequate physical, technological, and financial sector infrastructure for sustainable growth.

ADB will adopt four strategic objectives:

- Continuing support for economic, governance, and public sector reform;

- Promoting private sector development;
- Encouraging a more active role for women in social, economic, and political spheres; and
- Supporting environmental management.

In addition, ADB will support strengthening capacity for governance, economic management and public services, improving physical and information technology infrastructure development, strengthening financial sector management, and enhancing the role of civil society.

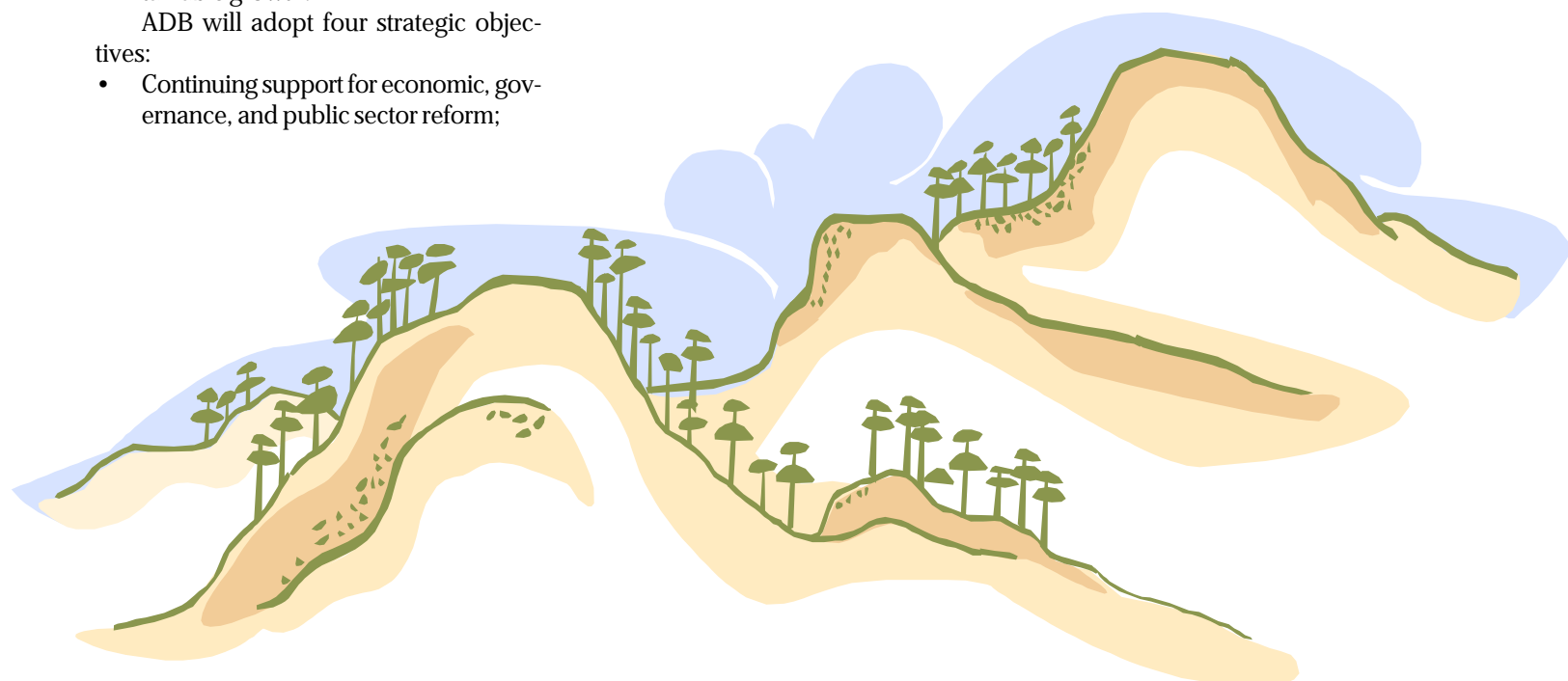
Robert Siy, also co-manager of ADB's Pacific Operations, said that in dealing with the wide diversity of the Pacific developing countries, ADB will apply its overall Strategy selectively as follows:

- In the countries which are resource-rich but have poor growth and high population rates such as Papua New Guinea, Solomon Islands, and Vanuatu, the strategy will focus on governance, public sector reform, and poverty reduction through social and infrastructure investments;
- In the more economically advanced countries with a higher skill base, moderate resource potential and relatively low poverty such as Cook Islands, Fiji

Islands, Federated States of Micronesia, Samoa, and Tonga, the Strategy will promote private sector growth through policy reform and physical and financial sectors strengthening; and

- In the island atolls of Kiribati, Marshall Islands, Nauru, and Tuvalu, which are severely disadvantaged by their smallness, isolation, and weak resource base, the Strategy is to establish and expand trust funds to support the sustainable financing of basic services. It is also to support niche markets for tourism and a sustainable use of marine resources.

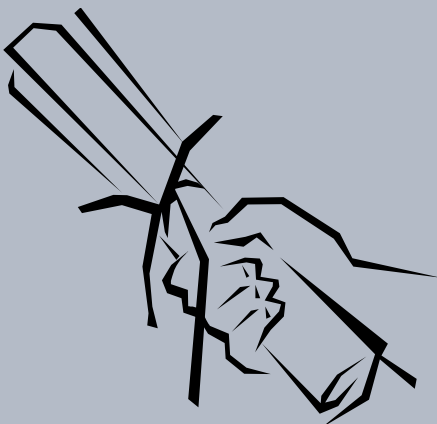
ADB's Strategy also underscores the importance of regional cooperation to reap collectively the benefits of economies of scale. ADB is currently supporting regional cooperation in fisheries, air transport, financial sector restructuring (including addressing money laundering), public sector management, and governance. In addressing these challenges, ADB is working closely with other donors, particularly Australia, Japan, New Zealand, the United Kingdom, the United States, and the European Union, and other multilaterals. ■



Tertiary education in Viet Nam is chronically underfunded and subject to great strain from an increasing number of students. Universities are small, mono-disciplinary institutions which do not take advantage of efficiencies and economies of scale. There is little linkage between teaching and research. Neighboring universities often offer duplicate courses. Moreover, most graduates are ill-equipped to work in a market economy that requires skills in interpreting and applying information. The project will help enhance the standard of tertiary education and will offer comprehensive curricula that will address these issues.

The University will have a capacity for 4,000 students and the project is expected to provide job skills for a total of 150,000 students during its project life. Scholarship schemes will be available for students from low-income families in line with ADB's overarching goal of poverty reduction. The project will construct a campus building with a learning resource center, a faculty building, a student and staff amenity building, and staff and student housing. The new campus will be located in Tan Phong Ward, District 7, in the new South Saigon New Urban Areas.

This is ADB's first private sector project in education. ADB and the International Finance Corporation are financing 45.5 percent of the total project cost of US\$33 million, with the balance being funded by RMIT. ADB's loan will come from its ordinary capital resources. It will be repayable in 10 years, including a five-year grace period and the interest rate will be determined in accordance with ADB's market-based loan facility with an option to convert the interest rate from floating to fixed. ■



# A Note on Land Degradation

Land and producing economically useful crops, trees, or livestock can be managed to sustain yields. Techniques exist that protect land even in fragile ecosystems. But almost everywhere, land is being degraded through overgrazing, overcultivation, destruction of woodland and vegetation, or poor irrigation practices. Why? It is easy to point to ignorance, overpopulation, or short-term gain. But single explanations are always inadequate. Reasons lie in the social, political, and economic circumstances that put pressure on the land users to manage land in a non-sustainable way. So, understanding why land users degrade land means embracing the range of relations affecting land users and their intercourse with the world at large.

**A chain of explanations.** Land degradation occurs because of repeated land-use decisions under specific conditions. Subtle (and not so subtle) incentives underpin each decision. Yet, they enter the picture at one point along a chain of explanations. To begin, physical changes in soil and vegetation leading to land degradation become noticeable at a site—for example, sheet and gully erosion, or bush or weed encroachment. This leads to symptoms that impact on the land user, such as falling or increasingly variable yields, or increased morbidity and mortality of livestock. These symptoms are brought about by specific land-use practices at the site (e.g., tree felling, short fallowing periods, overstocking, plowing down slope, or planting crops that provide no ground cover or protection for the soil when it rains).

Why does the land user treat the land in this way? Causes are found in the immediate circumstances, an important level of explanation and knowledge that has to do with access to resources, skills, assets, and time horizons—to name a few—but also to the nature of agricultural society (including the distribution of rights to land, laws of inheritance, and the gender division of labor). Higher still, one can examine how the state affects land management through laws on tenure, prices, or agricultural extension. Finally, one can study important international forces that act through the state to affect land management. They relate to



foreign debt, oil prices, or structural adjustment programs. To sum up, the chain of explanations pulls together:

- Recognized physical changes at a site;
- Symptoms affecting the land user;
- Specific land-use practices at the site;
- The resources, skills, assets, time horizon, and technologies of the land user;
- The makeup of agricultural society;
- The makeup of the state; and
- The global economy.

**... and logical interventions.** In view of these, understanding why land degradation takes place necessitates a political economy perspective locating analyses within specific social formations and explaining development processes in terms of the costs and benefits that they carry for different social classes. Interventions can then be made at all points along the chain. They would seek to address the policy, market, and institutional failures that break or pervert the necessary correlations between scarcity and prices, costs and benefits, rights and responsibilities, and actions and consequences.

*Olivier Serrat, Liaison Officer, European Representative Office, Asian Development Bank contributed this note.* ■

# Deforestation Benefits

Forests provide countless products of vital use and are a source of livelihood to millions. For those reasons, abuse of forest resources has intensified dramatically in the wake of improved methods of exploitation, processing and transport, growth of external markets, and rapidly expanding populations. Since forests also play a key role in the ecosystem, deforestation has led to desertification, soil erosion, flooding, loss of biodiversity, and poorer environments for the poor. If that were not enough, some contend too that deforestation changes the atmospheric oxygen and carbon dioxide balance—which alters the albedo and accelerates the greenhouse effect. So, with growing unease about the consequences of deforestation, attention is shifting from production to conservation. Sadly, an environmental management perspective that ignores the environmental conflicts at hand sways it.

## The beneficiaries of deforestation.

Deforestation happens because it is profitable. That is why the perspective of those who gain from it, in conflict with one another, is of interest. The beneficiaries are:

- Governments, since pioneer settlements divert attention from pressing social problems;
- National treasuries, which derive foreign exchange earnings from forest products;
- Commercial loggers (legal and illegal);
- People employed in the logging and wood-processing industries;
- Commercial interests that use deforested lands to grow a product for the market, speculate on land near roads and new settlements, and buy and sell charcoal or fuelwood;
- Local commercial businesses that benefit from frontier settlements;
- Urban consumers of charcoal and fuelwood, who pay a price that does not internalize the costs of deforestation;
- Consumers in industrialized countries, who also profit because the prices of tropical forest products do not reflect their true value;
- International corporations trading tropical forest products; and
- Migrant farmers and shifting cultivators, who benefit from the removal of forest cover because it allows them to farm.<sup>1</sup>

Clearly, the process of deforestation is not amenable to technical solutions. It does not hinge on the relative merits of different silvicultural practices or the choice of the discount rate. It is fueled by conflicting interests over the use of forest resources. So far, in many developing countries, the answer has been that the forests belong to loggers and their allies—the interests of communities and the many sectors that use or influence forests have never received much notice. Yet, to control

the process of deforestation, it is necessary to identify all those who benefit from it. Only

then will policy, market, and institutional instruments for sustainable development work.<sup>2</sup>

## A framework for conflict resolution.

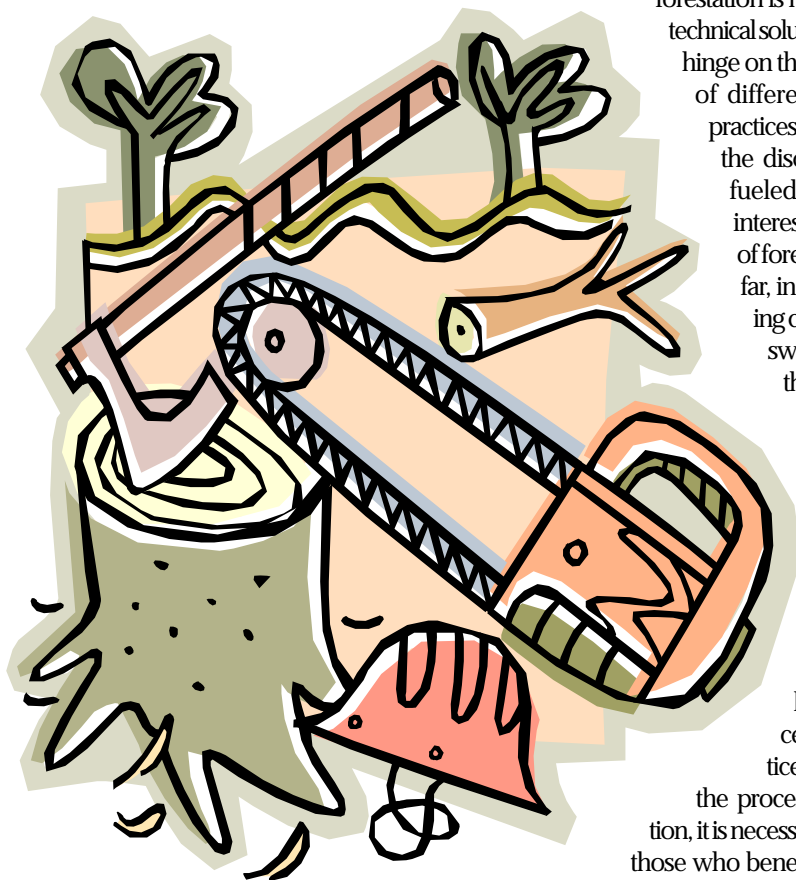
Demand for wood will rise by one third over the next 10 years. Worsening conflicts among forest users might be avoided if a cross-sectoral approach were adopted. Such an approach would identify all the sectors and groups that benefit from forests; define the benefits and establish objectives for sustaining and balancing them; and state how the objectives will be achieved. The intention would be to resolve conflicts by integrating compatible uses of forest resources or zoning where uses are incompatible. Solutions would permit the establishment of a stable forest continuum accommodating changing circumstances. Backed by (now) informed policy, market, and institutional instruments, the continuum would encompass protected forests in their natural state, managed natural forests, shifting cultivation, agroforestry, and plantations.

**Toward sustainable forest strategies.** Deforestation will be addressed most suitably by a multidisciplinary approach that emphasizes, against a pragmatic realization that societies (and forests) are dynamic, the socioeconomic and political environment in which deforestation takes place. The advantages of social ingenuity over technical ingenuity should not be overlooked. A stable system of markets, legal regimes (including property rights), financial agencies, and institutions is a prerequisite to any economic and social progress. But developing countries are ill-endowed with this social capital and their ability to create and maintain it is being eroded by the very environmental problems they are hoping to address.

*Olivier Serrat, Liaison Officer, European Representative Office, Asian Development Bank contributed this article.* ■

1 The benefits they derive are short-lived. The clearance process must be repeated elsewhere after a couple of years because of insect plagues, weeds, and soil impoverishment.

2 Also, these instruments need to consider the motives of the agents of deforestation. The poor eke out a living and perform much of the expansion of agriculture into previously forested areas. But logging, some agriculture, and some charcoal making are carried out for commercial reasons.



# ADB News Releases on the Web

<http://www.adb.org/news/default.asp>

Releases for April 2001
Canadian Fund to Manage Climate Change (3 April)
ADB's Web Site on Asia's Recovery to be Expanded (3 April)
Greenhouse Gas Abatement Project to be Launched at Workshop (16 April)
Globalization Requires Careful Management for Asia to Capitalize on Opportunities, ADB Report Says (19 April)
Asian Growth to Slow to 5.3 Percent in 2001, but Region Remains Among World's Fastest Growing, ADB Report Says (19 April)
Bumper Harvest Set to Boost Bangladesh's Growth to 5.7 Percent in 2001 (19 April)
Upbeat Outlook for Central Asian Republics Despite Tailing Off of Growth (19 April)
PRC's Growth to Top 7 Percent in 2001-2002, Driven by Domestic Demand (19 April)
India Forecast to Maintain 6-7 Percent Growth in 2001-2002 (19 April)
After Strong Rebound, Indonesian Growth to Slow Slightly to 2-4 Percent in 2001 (19 April)
After Impressive Recovery, Malaysian Growth to Slow in 2001 (19 April)
Growth in Mongolia to Pick Up After Mixed Performance in 2000 (19 April)
Pacific Countries' Growth Set to Resume after Slowdown in 2000 (19 April)
Large Fiscal Debt Casts Shadow Over Pakistan Economy (19 April)
Philippines' Growth to Slow After Year of Turbulence (19 April)
Thailand's Growth to Slow After Sustained Economic Recovery (19 April)
Viet Nam's Recovery Set to Continue in 2001 with Growth of 6.4 Percent (19 April)
ADB to Hold Art Competition for Manila Street Children (23 April)
Workshop to Narrow the Digital Divide (23 April)
Small Investments Could Save Millions of Asia's Children (25 April)
ADB Lending Totals US\$5.85 Million in 2000 (25 April)
Training Asia's Bank Supervisors (26 April)
Viet Nam to Build its First World-Class University (26 April)

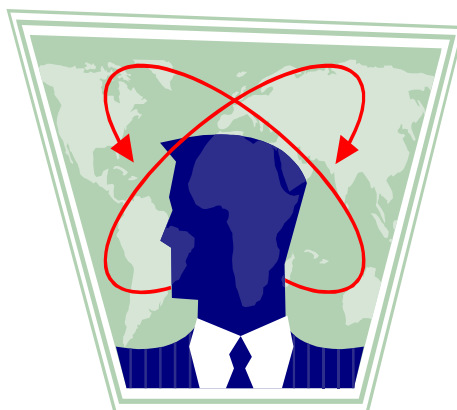
Releases for May 2001
Regional Workshop on National Accounting (3 May)
Thai Strategy to Improve Cities (3 May)
Kazakhstan to Develop Strategy for Poverty Reduction (16 May)
Anti-Corruption Action Plan for Asia-Pacific (25 May)

## ERO Organizes ADB Day in Lyon

On 25 April, 160 participants met in Lyon to discuss economic prospects and business opportunities in the Asian and Pacific region.

The European Representative Office and Entreprise Rhône-Alpes International organized the event. Regional cooperation was a special theme, drawing on the experience of the Four Motors for Europe (the regions of Baden-Württemberg, Catalonia, Lombardy, and Rhône-Alpes) and the Asian Development Bank's (ADB's) programs in the Greater Mekong Subregion and the central Asian republics.

The ADB Day gathered senior staff of ADB, officials from the French Government, the Four Motors for Europe,



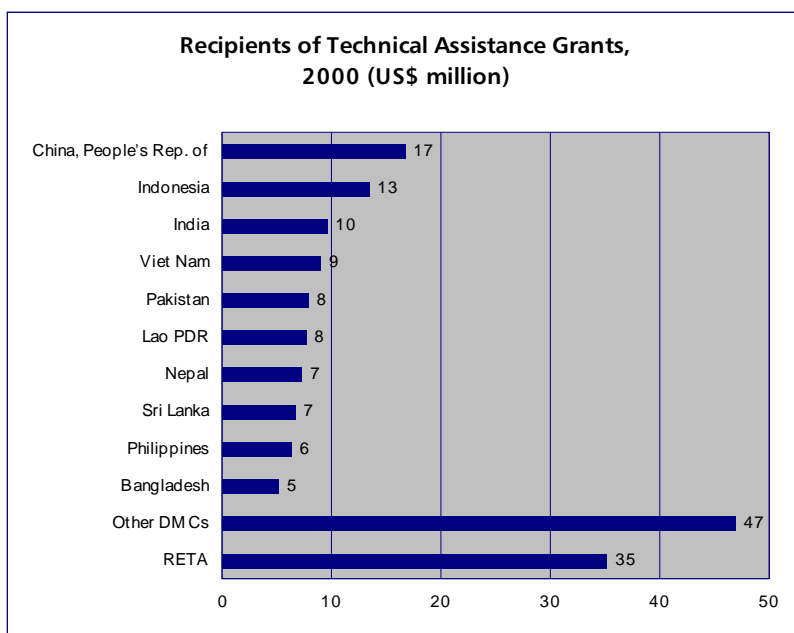
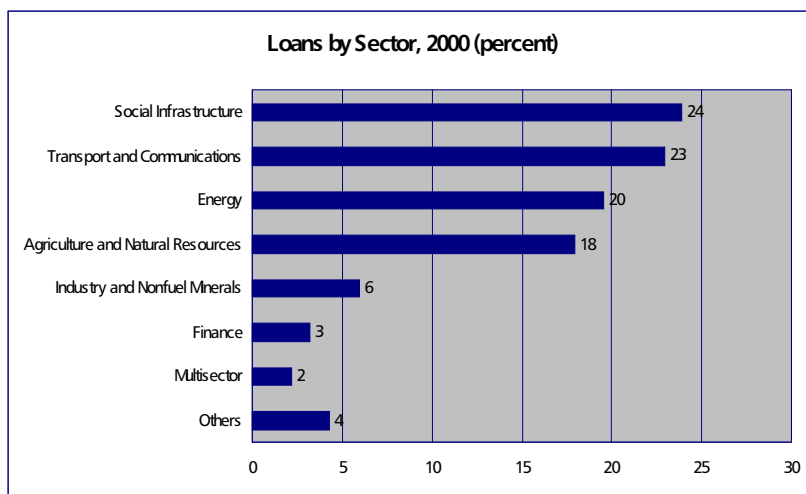
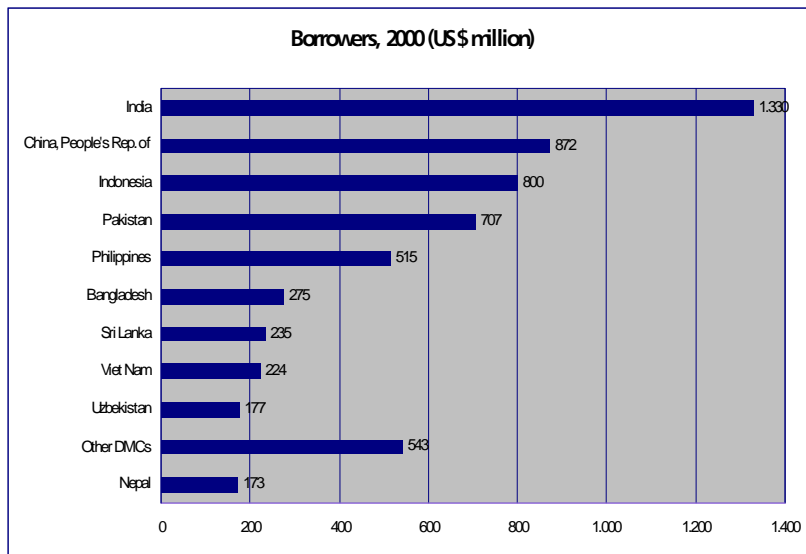
and representatives from the private sector, nongovernment organizations, and academia. The keynote speakers were John Lintjer, ADB's Vice-President for Finance and Administration;

Jean Agnes, President, Lyon Chamber of Commerce and Industry; Fabienne Levy, Vice-President, Rhône-Alpes Region; Clarisse Reille, President, Entreprise Rhône-Alpes International; Rémi van Lede, Director, East Asia and Oceania Department, Directorate of External Economic Relations, French Ministry of Economy, Finance, and Industry; and Christine Wallich, Director, Infrastructure, Energy, and Financial Sectors Department (West) and Head, Private Sector Group, ADB. In the morning, discussions focused on economic prospects, regional cooperation, and business opportunities. In the afternoon, parallel panel discussions offered insights to success through testimonies from European enterprises, civil society, and ADB. ■

# Papers Discussed by the Board of Directors in 2000

Policy, Financial, and Administrative Papers
Borrowing Program for 2000 (25 January)
Membership of Portugal (25 January)
Resident Mission Policy (17 February)
Establishment of a Resident Mission in the People's Republic of China (24 February)
Review of Service Charges for the Administration of Grant Cofinancing from Bilateral Sources (14 March)
Review of the Asian Development Bank's Income Outlook and Allocation of 1999 Net Income (28 March)
Private Sector Development Strategy (30 March)
Partial Credit Guarantee Charges (13 April)
Establishment of a Resident Mission in Thailand (19 April)
Cooperation with Japan—Japan Fund for Poverty Reduction (23 May)
Finance for the Poor—Microfinance Development Strategy (6 June)
Cooperation with Spain—Technical Assistance Grant Fund (28 June)
Cooperation with Denmark—Technical Assistance Grant Fund (27 July)
Establishment of a Resident Mission in Mongolia (1 August)
Three-Year Rolling Work Program and Budget Framework (2001-2003) (5 October)
Seventh Replenishment of the Asian Development Fund (2 November)
Arrangements for Transfer of Project Development Fund Grants from the Global Environment Facility (21 November)
Review of Papua New Guinea's Classification Under ADB's Graduation Policy (14 December)
ADB Institute—Work Program and Budget for 2001 (15 December)
Establishment of the Development Effectiveness Committee (20 December)
Working Papers
Promoting Good Governance: ADB's Medium-Term Agenda and Action Plan (26 April)
Private Sector Operations—Strategic Directions and Review (31 July)
Review of the Partial Risk Guarantee of the Asian Development Bank (1 August)
Water for All: The Water Policy of the Asian Development Bank (1 September)

**Asian Development Bank  
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# ERO Calendar 2001

<http://www.adb.org/ERO/events.asp>

Date	Title	Venue	Contact E-Mail Address
17 April	ERO Launch of the Asia Forum	Frankfurt, Germany	keonwoolee@adb.org
25 April	ADB Day	Lyon, France	oserrat@adb.org
5 May	ERO Presentations on Working with ADB and Fighting Poverty in Asia and the Pacific	Falkenstein, Germany	oserrat@adb.org
17-18 May	United Nations Conference on Least Developed Countries	Brussels, Belgium	keonwoolee@adb.org
22 May	ERO Presentations on Cooperation with Nongovernment Organizations and ADB's Program for Subregional Economic Cooperation in the Greater Mekong Subregion	Paris, France	oserrat@adb.org
7-8 June	Business Opportunities Seminar	Vienna, Austria	oserrat@adb.org
8 June	Herbert and Smith Project Finance Seminar	Frankfurt, Germany	keonwoolee@adb.org
11-12 June	Business Opportunities Seminar	Istanbul, Turkey	oserrat@adb.org
14-15 June	Business Opportunities Seminar	Madrid, Spain	oserrat@adb.org
21 June	ERO Presentation on ADB's Private Sector Operations	Cologne, Germany	keonwoolee@adb.org

## Asia Forum Launched

ERO launches Forum to Foster Dialogue on Asia

On 17 April, 80 bankers, industrialists, government officials, academics, and journalists attended the launch of the Asia Forum in Frankfurt.

The Forum was established to foster dialogue on Asia. The first meeting examined where the region is in its recovery from the Asian financial crisis of 1997. John Lintjer, the Asian Development Bank's (ADB's) Vice-President for Finance and Administration, explained that Indonesia, the Republic of Korea, Malaysia, the Philippines, and Thailand—the countries most affected by the crisis—registered growth of about 7 percent in 2000 despite the collapse of their stock markets and the weakness of their currencies. Domestic investment, long the laggard, is beginning to pick up. With the adoption of more flexible exchange rates and the move toward explicit inflation targeting, there is greater clarity and coherence in macroeconomic policies.

But growth in these countries will slow markedly to less than 4 percent in 2001—Asia's developing countries as a whole may achieve growth of about 5 percent—in response to the slowdown of the US economy. This underscores the need to

accelerate the pace of structural reforms, especially those touching nonperforming loans, insolvency systems, and standards for banking supervision, accounting, disclosure, and shareholder rights. Still, growth can only be sustained with a strong private sector. An enabling environment that encourages both domestic and foreign investments must exist.

Its main elements are well known: sound macroeconomic management, efficient financial markets, flexible labor markets, social safety nets, good infrastructure, equitable tax systems, effective regulation, open markets, and legal and judicial systems that protect property rights and enforce contracts.

John Lintjer highlighted also ADB's contributions to the creation of level playing fields through partial credit guarantee and political risk cover. ADB's political risk guarantee program, for example, has been revamped to restore confidence in Asia among international investors. The scope of coverage now includes expropriation, currency inconvertibility, nontransfer risk, political violence, and breach of contract.

ERO hopes to convene the Asia Forum on a quarterly basis. Do suggest themes of discussion and suitable resource speakers for future meetings. ■

European  
Representative  
Office

[www.adb.org/ERO/](http://www.adb.org/ERO/)

### IN OUR NEXT ISSUE

News from ERO will be featuring articles on

- *A Note on Floods in Bangladesh*
- *Institutions for Development*

Don't miss it!