

ADB

NARO NEWS

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Are Economic Growth & Poverty Reduction at Odds? ADB Weighs In

Does economic growth lead to poverty reduction? Countless arguments exist for either side of this question that encompasses an age-old debate often filled with heated disputes from opponents locked at extreme ends. On one side are advocates of the positive correlation between economic growth and poverty reduction school while the other side supports policies that often exclude economic liberalization.

With extensive research and over three decades of experience in poverty reduction, ADB has added its voice to the fray with findings supporting the view that economic growth and poverty reduction are not in conflict but can be mutually reinforcing. The type or quality of growth is critically important – some economic activities have positive impacts on the poor and some others, negligible or negative. Development strategies should therefore focus on promoting pro-poor growth. In addition, ADB maintains that to achieve sustained poverty reduction, other factors such as institutional reform, governance, and social and environmental development must also be included in policy and project initiatives.

According to the Global Poverty Report, released at the G8 Summit in Okinawa, Japan in July 2000, “Poverty in the Asia and Pacific region is marked by two significant factors: magnitude and diversity” where close to 900 million or 75 percent of the world’s poor exist and where one in three are poor. The Report also pointed out that until the Asian financial crisis of 1997, when many of the gains in poverty reduction were lost, the region had performed well in reducing poverty.

Prior to the crisis, the proportion of poor people was down to one third, 70 percent of adults were literate, and life expectancy was up to 68 years – compared to thirty years ago, when more than half of the region was poor, just two of five adults were literate, and the average person could hope to live only 48 years. In addition, the region’s population had increased from 1.8 billion to 3 billion, the number of poor people had dropped from more than 1 billion to 900 million. However, these populations remained highly vulnerable given that investments in social protection/safety nets were insufficient.

As a result of the crisis, it is estimated that an additional 18 million people in the Asia and Pacific region have fallen into poverty and vulnerability has increased in the region. This evidences that progress in poverty re-

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ADB Weighs In

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duction was constant but fragile; and that reducing poverty in Asia and the Pacific will require fine-tuning economic growth and social policies to ensure more inclusive development patterns.

Despite additional obstacles such as the weakly recovering global economy, ADB is prepared to contribute to the huge global effort to halve the proportion of the world's poor within the Asia and Pacific region by 2015 (based on the International Development Goals -IDGs). How does it intend to do this? By tackling the problem of poverty on the economic,

social, and institutional fronts.

The case of Bangladesh

A study on the "Assessment of Poverty Reduction Objective of ADB's Operations in Bangladesh", which was read at the first Asia & Pacific Forum on Poverty held in Manila last February, concluded that human capital (i.e. health and education) had the largest impact on poverty, followed by investments in physical infrastructures such as roads and electricity, then new high yielding technology. The findings also suggested that synergies existed among different growth projects thereby sup-

porting the notion that projects should incorporate different sectors in order to create more broad based results in poverty alleviation. Microcredit for the poor, for instance, could be viewed in the broader context of rural and human development, which would enhance the effectiveness of microcredit schemes, helping to accelerate the rate of poverty reduction.

Bangladesh is among the poorest countries in Asia. Like many countries in Asia, it faces the formidable challenge of addressing the infrastructure and services needs of its rapidly expanding towns and cities - the epicenters of eco-

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The Economic Front

This article is taken from the December 2001 report of The Asia Economic Monitor (AEM), which replaces the Asia Recovery Report as a quarterly review of East Asia's growth and recovery, financial and corporate sector reforms, and social development. This and other economic information can be found at www.aric.adb.org

The global economic slowdown, which began more than a year ago, is turning out to be deeper, longer, and more broad-based than expected. The September 11th attacks and subsequent events have introduced an additional element of uncertainty to an already weakening global economy. Although events are still unfolding, it appears that the short-term impacts will be manageable and that the longer-term impacts are uncertain because they depend mainly on non-economic factors. However, with the fall of Kabul and other areas, these impacts appear to have diminished somewhat.

The current economic slowdown in East Asia is expected to deepen and prolong further. Growth might pick up toward the middle of next year, rather than late this year or early next year as earlier anticipated. In 2001, the region is expected to have experienced the second slow-

est growth in decades. Next year's rebound in growth is likely to be more subdued than was previously expected and below-trend.

The London-based Consensus Economics Inc. now projects East Asia's average GDP growth to be 3.9 percent in 2001 and 4.7 percent in 2002. Compared to the forecasts made just before the September 11th attacks, growth is projected to be lower by a 0.5 percentage point in 2001 and by 1 percentage point in 2002. Various prudential indicators, however, suggest that East Asia's vulnerability to a 1997-type capital account crisis has been reduced.

Recovery in the five crisis-affected countries (Indonesia, Republic of Korea, Malaysia, Philippines, and Thailand) has been delayed quite significantly - real per capita incomes in 2002 will be lower than in 1997 in three of the five crisis-affected countries, and the pace of financial and corporate reforms and reduction in poverty is slowing in sev-

eral of these countries.

The past half-decade represents the most turbulent period in East Asia's recent economic history. Rapid growth up to 1996 was followed by a severe recession in 1998. A faster than expected recovery in 1999 and 2000, preceded a sharp economic slowdown in 2001, which was worsened by the September 11th attacks on the US. The lessons to be learned from the volatility and turbulence being experienced by the region are that, in a rapidly globalizing world, countries have to remain vigilant. Globalization enhances the benefits of good policies just as it magnifies the impacts of bad ones. East Asia cannot remain complacent about the unfinished structural reform agenda and spend its way out of the slowdown. At the regional level, efforts to enhance monetary and financial cooperation together with trade cooperation must be continued. ■

News Briefs

ADB Lending Rates for First Half of 2002

On 2 January 2002, ADB announced that the lending rate on its pool-based US dollar loan facility will be 6.69 percent per annum for the period from 1 January to 30 June 2002. ADB will reduce its rate on the outstanding pool-based multi-currency loans from 5.21 percent to 5.08 percent per annum for the same period.

ADB's new loan product – a LIBOR (London Interbank Offered Rate) based loan that offers borrowers more flexibility in the choice of currency and interest rate basis – has been available since 1 July 2001. ADB stopped offering new multicurrency loans as of 1 July 2001. It will also withdraw its pool based US dollar loans from 1 July 2002.

The new product will offer borrowers in the public and private sector loans in Euro, Japanese yen, or US dollars with a choice of a floating or fixed lending rate consisting of six-month LIBOR or the fixed rate equivalent of LIBOR, plus a spread fixed over the life of the loan. The new terms apply only to loans from ADB's Ordinary Capital Resources (OCR). Based on 6-month LIBOR rates for US dollars of around 1.98 per annum as of 26 December 2001, the new ADB product

will offer significantly lower interest rates than its current lending rate for pool-based US dollar loans. ■

Promoting Women's Leadership in Local Gov't

Through the Japan Special Fund, financed by the Japanese government, ADB is providing a US\$600,000 technical assistance grant to increase the capability of women leaders in local governments in Bangladesh, Nepal and Pakistan. The Canadian International Development Agency will contribute US\$135,000.

The project, to be pilot tested in selected districts of the three countries, will focus on familiarizing women with local government rules and procedures, provide gender sensitization workshops for men and women, develop community projects targeting poor women, and train women to resolve disputes in issues involving land, family law, divorce/separation, and social violence. It will also identify regional gender and governance issues for policy makers. ■

ADB's Reorganization Takes Effect

Effective 1 January 2002, ADB reorganized its operational departments in order to strengthen the country focus of its activities. Developing member countries will benefit because assistance programs will be more integrated and effective as a result of being based on a country's overall requirements, rather than by sector or theme.

"The reorganization will help ADB deliver its agenda to its member countries more effectively than ever," says ADB President Tadao Chino. "It will also help us improve our work environment, raise our output and enhance the efficient and effective management of our knowledge and information resources." ■

ADB to Administer Multi-Donor Funds

In collaboration with international and bilateral organizations, ADB will administer two cooperation funds to strengthen its poverty reduction and governance activities in the region. The government of Netherlands will make the first contribution of US \$6 million to the Cooperation Fund in Support of the Formulation and Implementation of National Poverty Reduction Strategies. The Canadian government will make an initial grant contribution of C\$2.5 million to the Governance Cooperation Fund, which will help ADB attract support for its Agenda and Action Plan on Governance.

Both funds will be held by ADB on behalf of participating donors and will be administered separately from ADB's resources. ■

In Other News

News Releases on the Web: adb.org/news/

- ADB President Visits Gujarat to Assess Earthquake Relief & Rebuilding Work (6 February 2002)
- ADB Team to Kabul to Prepare Projects (1 February 2002)
- ADB to Play Crucial Role in Reconstruction of Afghanistan (21 January 2002)
- ADB and the World Bank Sign Agreement for Closer Cooperation (21 January 2002)

ADB Online: Sites of Interest

A	
ADB Institute	adb.org
Annual Meeting	adb.org/AnnualMeeting/2002/default.asp
Anticorruption	adb.org/anticorruption
Asian Development Fund	adb.org/finance
B	
Business Opportunities	adb.org/business/opportunities
C	
Calendar of Events	adb.org/news/calendar.asp
Cofinancing Opportunities	adb.org/cofinancing
Consulting Services	adb.org/consulting
Country Assistance Plans	adb.org/documents/caps
Country Economic Reviews	adb.org/documents/cers
Country Operations	adb.org/countries
D	
Depository Library Program	adb.org/publications/depositories
Development Topics	adb.org/development
E	
Economic and Social Statistics	adb.org/statistics
Employment Opportunities	adb.org/employment
Environment	adb.org/environment
External Relations	adb.org/oer
G	
Gender and Development	adb.org/gender
Governance	adb.org/governance
I	
Indigenous Peoples	adb.org/documents/policies/indigenous_peoples
Inspection Function	adb.org/inspection
Internship Program	adb.org/employment/internship.asp
J	
Japan Scholarship Program	adb.org/documents/brochures/scholarship_program
M	
Microfinance	adb.org/microfinance
N	
NARO	adb.org/naro
Nongovernment Organizations	adb.org/ngos
O	
Organization Chart	adb.org/about/orgchart.asp
P	
Policies and Strategies	adb.org/development/policies.asp
Poverty Reduction	adb.org/poverty
Private Sector Development	adb.org/privatesector
Procurement	adb.org/procurement
Publications	adb.org/publications
Y	
Young Professionals Program	adb.org/employment/ypp.asp

ADB Weighs In

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economic growth and job creation. According to data from the Bangladesh Bureau of Statistics, in 1995-96, about 50 percent of the urban population lived below the poverty line with over 27 percent in extreme poverty. Of the country's total poor, about 90 percent live in rural areas, where they depend largely on agriculture or fishing for a living.

Cooperative efforts between ADB and the Government of Bangladesh have yielded several projects, since last year, that tackle poverty at many levels. The water resources development project, for example, will help community-based water management associations rehabilitate and manage small-scale infrastructure to control floods and provide water for irrigation, inland fisheries, and domestic use. By increasing food grain and fish production, the project will raise both the income and nutrition levels of about 280,000 households.

The rural infrastructure improvement project also demonstrates ADB's multi-pronged approach to poverty alleviation. The project will help design an investment project that is expected to increase incomes, employment and quality of life in rural areas of high poverty incidence in southwest Bangladesh. On the urban poverty alleviation front, the self-help initiatives for the urban infrastructure improvement project will support communities in the management of urban services in Dhaka and selected secondary towns.

Towards the future

ADB has made significant headway in the fight against poverty. It is dedicating 40 percent of its public sector lending to targeted poverty interventions. This commitment is reflected in ADB's lending pattern, which has undergone change over time. Between the two periods of 1978-1987 and 1988-1997, social infrastructure investments rose from 6 to 25 percent, transport and communications increased from 13 to

22 percent while more traditional sectors, such as energy, dropped from 48 to 30 percent. This increase in human capital investment underlines ADB's commitment to sustainable poverty reduction.

In addition to the reorganization that is taking place at ADB, the newly implemented Social Protection Strategy will be an important tool in poverty reduction. The strategy will focus on assisting member countries in the design of labor market policies, social insurance, social assistance and welfare programs, micro-and area-based schemes to address vulnerability at the community level, and child protection.

Conclusion

Growth is a necessary but not a sufficient condition for poverty reduction, especially if the objective is sustained

poverty reduction. Poverty reduction depends, not only on the rate of economic growth, but also on the type of growth, accompanied by parallel improvements in governance and significant progress in social development. Several studies have shown that progress in advancing the IDG goals of poverty reduction in the Asia and Pacific Region is possible. Armed with unique strengths that have allowed it to become a trusted partner with many developing member countries, ADB is poised to take on the challenge. ■

Hammer, L.J. Healey and F. Naschold, 2000: "Will growth halve poverty by 2015", ODI Poverty Briefing, UK.; Pasha, H.2001: Achieving the Millenium Summit Goals, UNDP, DFID, 2001: Poverty: Bridging the Gap, UK; Pernia, E: "Poverty: Where do we go from here", ADB Poverty Forum, Manila, ADB.

What's New at NARO

NARO recently obtained prints taken in Nepal and India from Susna De, a Canadian photographer of Indian heritage. Ms De (pictured, below left) has spent the past decade traveling across continents and photographing her experiences. Regardless of location, her subjects seem to have a deep connection to their surroundings – which may be reflective of Ms. De's own objective: to blend into the culture in order to capture its true essence, honestly and always with respect. Susna De's work can be viewed throughout NARO's premises beginning in January 2002. ■



Publication Highlights

Social Protection in Asia and the Pacific

Edited by Isabel Ortiz, ISBN 971-561-367-5 (707 pages), US\$20 per copy

Social protection is an integral part of ADB's Poverty Reduction Strategy. This book focuses on the potential of social protection to diminish vulnerability to risks, generate employment, and improve productivity and working conditions in the region. In this context, the goal of social protection is to assist individuals to transform the vicious cycle of poverty into a positive cycle of opportunities, security, and human development. This volume reflects the work and findings of the ADB Working Group on Social Protection. Since 1998, this group has been working in close consultation with ADB's members and aid agencies. The contributors present the theoretical background and project options of the five core social protection topics: labor

markets, social insurance, social assistance, micro and area-based schemes, and child protection. Studies of three specific social protection interventions, pension, disaster preparedness, and investment in child protection, are included as contributions to the social protection debate. The studies were presented at the Asia Pacific Forum on Poverty held February 2001 in Manila, Philippines. ■

Children of Asia: DVD & Video Series

DVDs: \$20 per copy, Videos: \$10 per copy

Throughout Asia and the Pacific, more than 400 million children live in extreme poverty. Denied their rights, they are vulnerable to disease,

armed conflict, and exploitation. For a fortunate few, however, the future appears brighter. In this series of four stories, we meet children of Asia who are making a difference:

Fragile Promise: Child laborers in southern India form a union to defend their rights.

Total running time: 11:06 minutes.

Turning Grief into Courage: A teenage girl in northern Thailand copes with becoming an AIDS orphan.

Total running time: 12:29 minutes.

Lessons from Life: Children in East Timor learn to overcome the trauma of armed conflict.

Total running time: 13:48 minutes.

Digital Dividends: Poor children in Bangladesh, Cambodia, and India benefit from information and communications technology.

Total running time: 12:08 minutes. ■

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