HIGHLIGHTS
of the Annual Meeting Knowledge Sharing
and Partnership Events
HIGHLIGHTS
of the Annual Meeting Knowledge Sharing and Partnership Events
CONTENTS

Letter from The Secretary.............................................................................................................................................. 3

Seminar Series
Governors’ Seminar: Rethinking Growth Potential and Growth Models ................................................................. 4
Financial Sector Development for Sustaining Asia’s Growth .......................................................................................... 6
Private Infrastructure in Asia: Enormous Need but Constrained Supply—Preparing Bankable Projects and Removing Impediments to Private Financing .......................................................... 7
ADB’s PPP Operations and EIU’s PPP Readiness Index: 2014 Asia Infrascope .............................................................. 8
ADB Development Effectiveness Report 2014: Delivering Results and Measuring for Success ............................... 9
Challenges and Opportunities for Livable Asian Cities ................................................................................................. 10
ADF-OCR Combination: Enhancing ADB’s Financial Capacity for Reducing Poverty .................................................. 11
Revealing the Financing Solutions for Universal Health Coverage ........................................................................ 12
Economics of Gender Equality ..................................................................................................................................... 13
Beyond Growth: Innovation and Governance ........................................................................................................... 14
Central Asia, Southern Caucasus and the Future of Regional Cooperation and Integration ..................................... 15

Sponsored Seminars
From Factory Floor to the Middle Class: Does Labor-intensive Manufacturing Promote Economic Mobility? ........ 16
Where are Asia’s Capital Markets Headed? Plotting Regional Trends in the Midst of a Transforming Global Landscape .... 17
Unearthing the Future Drivers For Asia’s Growth Pillars—People’s Republic of China, India, Indonesia ................. 18
Energy Policy Reassessment in Asia .......................................................................................................................... 19
ADB-Islamic Financial Services Board Panel: How Islamic Finance Can Contribute to Sustainable Growth in Asia 20
Role of ICT Solutions for Developing Sustainable Cities and Communities—Solutions for Disaster Resilience, Safer and Smart Cities ............................................................................................... 21

Civil Society Program .................................................................................................................................................. 22

Special Features
Host Country Event—Azerbaijan 2020: Toward an Innovative and Diversified Economy ............................................................ 25
CNBC Debate ...................................................................................................................................................................... 26
LETTER FROM THE SECRETARY

On behalf of the Asian Development Bank, I would like to thank you for participating in the 48th Annual Meeting of the Board of Governors in Baku, Azerbaijan. Over 2,500 participants came to Baku to take part in dialogues and discussions about the future of Asia and the Pacific and how ADB can step up its efforts to reduce poverty in the region.

Expanding on the Annual Meeting theme “Fostering Partnership for Development,” the host country underscored the importance of leveraging knowledge and resources of various partners and stakeholders to amplify the impact and enhance the sustainability of development programs and projects. The host country also held a conference discussing Azerbaijan’s challenges and innovative approaches to diversity its economy.

The 2015 seminar program featured a diverse mix of topics relevant to ADB’s areas of operations, including financial sector development, private infrastructure financing and public–private partnership readiness, sustainable urban development, financing universal health care, and gender equality, among others. ADB Governors also participated in discussions about growth potential and growth models in Asia and the Pacific and creating and sustaining livable cities.

A vibrant civil society program also took place featuring a youth debate and panel discussions on disaster resilience, ICT, governance, food security, and financing biodiversity conservation. Civil society organization representatives also held discussions with the ADB President and senior management on issues of mutual interest.

An important part of the meeting was the partnership forum jointly chaired by ADB President Takehiko Nakao and Nepal Finance Minister Ram Sharan Mahat in response to the devastating earthquake that struck Nepal several days prior to the Annual Meeting. The forum was attended by delegates from 25 countries, representatives of international aid agencies, and other multilateral development partners. The meeting recognized the central role of the Government of Nepal in coordinating relief and reconstruction efforts. It stressed the importance of anchoring rebuilding efforts on a comprehensive assessment that is geared toward enhancing Nepal’s resilience to respond to future disasters.

Additional information about the Annual Meeting may be found on ADB’s website, including links to multimedia content and ADB publications.

We look forward to welcoming you again in 2016, as Frankfurt, Germany prepares to host the 49th Annual Meeting.

Woochong Um
The Secretary
Asian Development Bank
At the Governors’ Seminar, panelists discussed recent growth experiences and policy efforts being made by economies in Asia and the Pacific in responding and adapting their growth models to changing internal and external environments. While noting significant progress made in addressing supply-side constraints and stimulating domestic demand in the region in recent years, they emphasized the importance of continued reforms to take advantage of new opportunities, address emerging challenges, and realize the full potential of their economies; and to maintain robust, inclusive, and sustainable growth.

Developing Asia has grown at 7.6% annually in the last decade, and despite the global financial crisis, it continues to be a major source of global growth, contributing nearly 60% in 2009–2014. However, the favorable conditions underpinning this growth may not prevail in coming years. While the external environment is improving, growth of advanced countries—major markets of Asian manufacturing exports—may continue to fall short of its pre-crisis pace. At the same time, falling commodity prices weaken the growth of economies relying on resources exports, and rising labor costs in some parts of the region make upgrading of industries and services more urgent. Meanwhile, some economies face the challenge of making sources of growth more balanced.

ADB President Takehiko Nakao said that although he is optimistic the region will continue to lead global economic growth and fight poverty, it is critical for Asian countries to prioritize reforms that will best position their economies for continuing development.

Minister Lou said the People’s Republic of China can maintain stable growth rates even under the new normal. The government is shifting focus from quantity to quality of growth, and a greater reliance on domestic private consumption and market forces. Across the region, he noted, countries still need to improve infrastructure, interconnectivity, and integration.
Minister Brodjonegoro noted that Indonesia is addressing constraints on industrial upgrading and growth by boosting infrastructure investment and human capital development. Secretary Mehrishi indicated that India is moving toward a model where manufacturing plays a bigger role in generating jobs and higher incomes. Minister Sharifov said resource-rich economies, like Azerbaijan, need to diversify into non-resource sectors to counter their exposure to commodity price shocks, and he highlighted recent government initiatives in developing non-oil sectors.

Ambassador Maser Mallor noted that innovation will result in more and better jobs, leading to a reduction in poverty, citing Switzerland’s experience. Minister Aso emphasized that sustained economic growth under the new normal requires a transition from labor-intensive to knowledge-intensive manufacturing. For that to happen, it is crucial that governments foster research and development, innovation, and new market opportunities, as well as implement necessary structural reforms.

With such diverse circumstances in the region, different keys are needed to unlock growth. Panelists highlighted several areas needing attention. Reforming labor and land markets and the financial sector, and rationalizing subsidies, can remove inefficiencies. Considerable investment is needed to meet the region’s human capital and infrastructure requirements. Enhanced regional cooperation can boost intraregional trade and investment—multiplying the dividends gained from domestic policies.
Developing Asia’s financial systems have become significantly healthier since the Asian financial crisis of 1997–1998. While the region is now financially more developed than other parts of the developing world, it continues to lag financially advanced countries by a wide margin. The region’s financial inclusion performance lags not only the advanced countries, but also some other developing regions. External factors such as quantitative easing and internal factors such as shadow banking loom as threats to financial stability.

The panel generally agreed that further development of the financial sector could help sustain Asia’s growth. At the same time, the approach to financial development must fit each country’s circumstances. Low-income countries stand to benefit the most from banking system reform that mobilizes domestic savings and lowers the cost of credit. Middle-income countries can reap productivity gains by deepening their equity and bond markets, which will reduce the cost of long-term capital. There was a firm consensus that while sound banking regulation must remain the first line of defense against financial shocks in Asia, newer policy tools can shore up regional financial stability. In particular, macroprudential policies can mitigate risks that undermine the entire financial system rather than individual financial institutions.

President Nakao concluded the seminar by highlighting the potential contribution of financial sector development to more inclusive growth in Asia. While finance has a generally positive effect on growth, its impact on equity is uncertain. To safeguard inclusive growth, financial development must be accompanied by concerted measures to broaden the access of households and firms to finance.
PRIVATE INFRASTRUCTURE IN ASIA: ENORMOUS NEED BUT CONstrained SUPPLY—PREPARING BANKABLE PROJECTS AND REMOVING IMPediments TO PRIVATE FINANCING

Infrastructure is a prime catalyst for economic growth, helping people access essential services, markets, and jobs. It is also a critical component for promoting sustainable development. The Asian Development Bank (ADB) estimates that Asia and the Pacific needs $800 billion every year in infrastructure investment. Governments alone will not be able to bridge the infrastructure gap. Private sector participation and public–private partnership (PPP) arrangements are needed and must be fostered. Creating the enabling environment for private infrastructure financing, providing incentives for private investments, and promoting sustainable PPPs were discussed at the seminar, cosponsored by the World Economic Forum.

The panel—composed of senior current and ex-government officials, infrastructure developers, and bankers—agreed that the infrastructure needs of developing Asia are enormous, and that the ability of governments to manage and finance these needs directly is constrained. The role of the private sector in delivering and operating infrastructure is thus compelling. Experience from the market indicates that well-prepared and structured projects can and do attract financing. However, the market complains about seeing too few well-structured projects. Collaboration between the public and private sectors is essential. The removal of key impediments to private financing of infrastructure in Asia must be a priority, with a focus on what can be done to bring more bankable projects to market.

During the discussions, the panelists agreed that while PPPs are not a panacea for the infrastructure needs of Asia, they are a critical tool that need to be cultivated. They also agreed that availability of money to finance good PPPs is generally not a constraint but that, in addition to a paucity of well-prepared projects, lack of trust in governments’ long-term commitment to PPPs can be an impediment. Predictability and sanctity of contracts is essential, and must be cultivated and consistently demonstrated. It is also critical that governments manage an open, transparent, and competitive process for PPP procurement. Finally, the panel discussed the obligations of the private sector to provide value for money and safeguard the interests of all stakeholders.

Panelists:
- Koray Arikan
  Advisor to the Chair, Dogus Group
- Gordon Bajnai
  Chief Operating Officer, Meridiam Group
- Arundhati Bhattacharya
  Chairperson, State Bank of India
- Jose Isidro Camacho
  Managing Director, Vice Chair, and Country Chief Executive Officer for Singapore, Credit Suisse Asia Pacific
- Todd Freeland
  Director General, Private Sector Operations Department, Asian Development Bank
- Samir Sharifov
  Chair, Board of Governors and Governor for Azerbaijan, Asian Development Bank; and Minister of Finance, Azerbaijan

Moderator:
Chloe Cho
Presenter, Channel News Asia

Seminar Coordinator:
Michael Peter Barrow
Public sector funding and multilateral financing alone cannot satisfy developing Asia’s needs for infrastructure services. Public–private partnership (PPP) is widely seen as a way to help fill this gap. Yet implementation remains challenging, particularly the creation of bankable transactions. The public sector must be well-advised and skilled and versed in project preparation and implementation. The enabling environment for private investment must be appropriate and stable. Governments must give these projects priority throughout their preparation and development. This includes ensuring that all the necessary funds are available. Finally, financing must be secured. These requirements also represent the four pillars of ADB’s PPP Operational Plan. The seminar offered insights into the region’s PPP enabling environments as well as ADB’s PPP operations.

ADB’s Office of Public Private Partnership provides greater support and coordination for PPPs across ADB operations. It also centralizes ADB’s PPP transaction advisory capacity to help governments and their agencies prepare and structure infrastructure projects for viable PPPs. Ryuichi Kaga outlined an innovative co-advisory platform with the world’s leading project finance banks, which will avoid crowding out current players and leverage international best practices. The Asia-Pacific Project Preparation Facility, a new ADB-managed multidonor trust fund, was also discussed. This will support the costs of preparation, structuring and advisory resources that public sector agencies need to deliver viable infrastructure projects that can secure private investment.

The Infrascope is an assessment and analysis conducted by the EIU on the capacity of countries to deliver sustainable PPPs. The EIU’s presentation provided early insights prior to the launch of their 2014 Asia-Pacific edition. Notable results included a positive correlation between countries’ overall scores and their scores for regulatory and institutional frameworks, the study’s “political will” indicator improved for nearly all countries and was remarkably consistent, and PPP projects increased from 1,243 in 2011 to 1,739 in 2014.

Audience members remarked on their respective countries’ efforts to deliver PPPs, including the challenge surrounding “bankability.” Panelists agreed that progress is being seen but challenges remain in preparing strong project pipelines. The Infrascope’s methodology was noted for further peer review and panelists agreed that civil society organizations should play a greater role in feedback and future assessments of PPP enabling environments.
In 2008, ADB took the pioneering step of adopting the first corporate results framework for a multilateral development bank. The framework measures ADB’s progress toward the goals of its long-term strategic framework, Strategy 2020. Since then, ADB has been measuring its performance each year against the framework’s targets. ADB publishes the results of this exercise in the annual Development Effectiveness Review. Following the midterm review of Strategy 2020, ADB updated the results framework. The 2014 Development Effectiveness Review reports ADB’s performance against the updated results framework.

For the first time, the 2015 seminar brought together the findings of three recently completed reports: the 2014 Development Effectiveness Review, the 2014 Annual Portfolio Performance Report, and the 2015 Annual Evaluation Report. It presented a holistic account of ADB’s performance scorecard in 2014, included detailed information on the portfolio performance, and shared perspectives from independent evaluations. The seminar highlighted ADB’s major achievements in 2014 as well as areas in which ADB needs to improve. It also showcased how ADB projects improved people’s lives, using stories from the 2014 edition of Together We Deliver.
CHALLENGES AND OPPORTUNITIES FOR LIVABLE ASIAN CITIES

Rapid economic growth in Asia and the Pacific attracts more than 120,000 new urbanites each day to its cities. Urbanization is happening at an unprecedented scale and speed. By 2050, about 65% of the region’s population will live in urban areas. The quality and efficiency of Asian cities will determine the region’s long-term productivity and overall stability. Maintaining vital economic growth, while creating livable cities for all, is the biggest challenge in the region.

The seminar discussed how urban areas can successfully attract financing for developing competitive, inclusive, and green cities. The need for compact, connected, and coordinated urban development—integrating resilience qualities into city design—is likely to require knowledge, investment, and collaboration among all development partners, both public and private. Experts discussed the challenges for building long-term urban strategies and securing investments to finance the huge demand for sustainable urban infrastructure. The panelists deliberated on what is needed to strengthen local government capacity for urban management. Good practices and lessons learned from Baku, Singapore, and Seoul, with replication potential in developing cities, as well as Indonesia’s approach supporting local governments, were discussed.

The seminar highlighted the importance of strengthening the role of city authorities for creating livable and resilient cities that are attractive places for investment. The panelists agreed on the importance of ADB–financed programs such as the Cities Development Initiative for Asia—established together with the governments of Germany, Austria, Spain, Sweden, and Switzerland, and Shanghai Municipal Government—supporting secondary cities to bridge the planning–implementation gap. Global financing mechanisms like the Global Environment Facility are also highly relevant for sustainable cities development. The panelists noted the need for integrated urban development plans to mobilize resources for urban infrastructure while ensuring that especially secondary cities improve their governance and local revenues to become creditworthy and be well prepared for future rural to urban migration.

To increase investment in sustainable and resilient urban infrastructure, the seminar highlighted the need for (i) long-term urban development strategies; (ii) integrated socioeconomic, spatial, and investment planning; (iii) good governance with distinct regulatory frameworks, institutional coordination, and capacity building; (iv) innovative financing; and (v) public–private collaboration, including citizen involvement.
ADF-OCR COMBINATION: ENHANCING ADB’S FINANCIAL CAPACITY FOR REDUCING POVERTY

To meet the increasingly challenging financing requirements of the poorest countries in Asia and the Pacific, and to realize its vision of a region free of poverty, the Asian Development Bank (ADB) developed a groundbreaking innovation to enhance its lending capacity.

Combining the equity and lending operations of the Asian Development Fund (ADF) with the ordinary capital resources (OCR) balance sheet will almost triple OCR equity, and will raise annual financing commitments by up to 40% and annual financing commitments to poor countries by up to 70%. Under the combined resources, countries currently eligible for ADF loans will continue to receive concessional loans from expanded OCR on the same terms and conditions as current ADF loans. The ADF will be retained as a grant-only donor fund to provide assistance to eligible countries.

The announcement of the unanimous approval of the combination by the ADB Board of Governors was made by ADB President Takehiko Nakao at the 48th ADB Annual Meeting in Baku, Azerbaijan. The seminar provided a detailed insight into the rationale, impact, and benefits of the combination. The presenters explained that the combination will enhance ADB’s risk-bearing capacity and strengthen its readiness to respond to future economic crises and natural disasters. Questions from the audience and the subsequent discussion focused on the example that ADB has set, and the potential to replicate the innovation at other multilateral institutions. The presenters also highlighted the unchanged governance aspects and financial soundness of the combination.
Countries in developing Asia are moving toward universal health coverage to ensure their populations can use the quality health services they need without enduring financial hardship. At present, major gaps exist in the health systems of developing Asia, and millions of people are forced into poverty annually because of out-of-pocket health expenditures. In India, for example, there are not enough doctors, and basic diagnostic equipment and medicines are lacking in rural areas. The region’s health systems are in need of innovation. Spending on health should be seen as an investment, not a cost.

A singular focus on budgetary allocations for health can obscure the key goal—achieving improved health outcomes. Increased public spending does not necessarily result in better quality services or enhanced availability of those services. More attention should be given to results. A leading international funding source to address particular diseases—The Global Fund to Fight AIDS, Tuberculosis and Malaria—has begun innovation to pay for outputs rather than inputs. Kazakhstan’s movement to output-based payments has unleashed innovative thinking. In Pakistan, the nongovernment organization Heartfile is conducting an information technology-enabled pilot project to provide targeted cash transfers to protect the poor against catastrophic spending on health.

The environment for addressing health issues has changed since the adoption of the Millennium Development Goals, and financing for the new Sustainable Development Goals will need to be more diverse. Technical capacity constraints must be addressed, innovation encouraged, and private sector resources harnessed to achieve universal health coverage. Strict government regulation is required to prevent corruption and keep costs down. Gender is a major issue, as evidenced by maternal mortality and gender selection.

Promotion of universal health coverage requires a multi-stakeholder, all-of-government approach. It is not enough to engage only with health ministries—other parts of government, including highly influential finance ministries, must also be involved. Major gains can be achieved by supporting prevention of habits that harm health. Actions in other sectors can positively affect health outcomes, such as clean drinking water, good sanitation, and proper waste disposal.

The experience of Japan highlights the political economy of universal health coverage. Japan’s early efforts to provide health coverage to its poor population in the 1950s were given a critical boost by the consensus among major political parties that universal health coverage was an essential policy objective. Achieving such coverage in 1961 contributed to the development of a middle class. In 2013, Japan made universal health coverage part of its diplomatic outreach, recognizing that healthy populations contribute to economic development.
Gender inequality remains a serious hurdle to inclusive and sustainable development in Asia and the Pacific. About half of the region’s working-age women are economically inactive, reflecting substantial socioeconomic imbalances at various levels—basic human rights, women’s empowerment in the household and society, and government policies. The channels of gender inequality are so complex that policy interventions must go beyond economics to address them effectively.

The seminar discussions focused on how to improve female participation in a wide range of economic activities and achieve gender balance in the workforce across Asia and the Pacific. Improving gender balance at school and work could bring dramatic benefits to economic growth and social welfare. According to an ADB study, closing the gender gap could generate a 30% increase in per capita income for an average Asian economy in one generation, and a 70% increase in two generations. Past studies also point to clear empirical evidence that better educated mothers can provide their children with better nutrition, longer years of schooling, and enhanced opportunities for academic achievement.

What clearly emerged from the seminar discussions is that barriers to women’s full participation in the workforce can be systemic and structural. Without concerted efforts and policy interventions, some of the persistent and troubling trends often associated with market and institutional failures will be perpetuated across time and generations. The panelists emphasized the critical role of governments in improving women’s access to decent jobs as well as the need to pay attention to factors that induce women to enter the labor market—such as access to education, including adequate training opportunities, flexibility at work, access to finance and assets, and social protection and security. They also deemed the role of multilateral development agencies as crucial for increasing awareness at the macro level and encouraging project initiatives at the micro level, pointing to the recent ADB initiative of increasing support to projects that enhance technical and vocational education and training. The panelists also highlighted the importance of female role models as decision makers in politics and business, recognizing that both globally and in Asia, female representation in senior political positions and entrepreneurship is limited.

To allow women to increase and improve their participation in the workforce, policies need to address the basics, such as provision of adequate infrastructure to improve access to safe water and roads, construct more schools, and improve financial inclusion, as well as removing violence against women and improving social protection and security.
Drawing on recent studies by Independent Evaluation, the seminar focused on the need for innovative governance approaches to address vital development challenges in Asia and the Pacific.

Evolving development context. Countries in Asia and the Pacific can no longer pursue growth at any cost without embracing better governance to build economies that are socially inclusive and environmentally sustainable, according to the ADB Independent Evaluation Department.

The region’s governance performance, however, does not match its success in producing fast-growing economies, an expert panel concluded at a seminar hosted by Independent Evaluation. Global indicators point to weaknesses in governance, and ADB stakeholder surveys consistently highlight poor governance and corruption among member countries.

Lessons from evaluations and implications for ADB going forward. To address the problem, governments must retool their institutions to enhance transparency, accountability, predictability, and enforceability. An inclusive and environmentally sustainable growth path will be critical to maintain high levels of growth in the region. The stakes are even higher in a growing number of Asian countries where substantial revenues are generated from natural resource exports, including in Central Asia.

But not just macro-level concerns are important. To ensure that public investments are translated into responsive, inclusive, and effective delivery of services, sound local governance arrangements are equally important. This calls for participatory planning modalities that are responsive to local needs, appropriate fiscal and budgetary discretion at local government level, strong accountability mechanisms, and adequate human capacity.

E-governance and e-government solutions can be applied to both the supply side of governance, for example to increase fiscal transparency, and also the demand side, for example as a means to facilitate citizens’ feedback mechanisms on services delivered by (local) governments.

Improvements in governance can result in important development dividends for Asia and the Pacific. The role of ADB in promoting and supporting sound and innovative governance arrangements that ensure accountability and foster sustainable and inclusive economic systems remains critical.

Panelists:
Daniel Kaufmann
President,
Natural Resource Governance Institute

Alexia Latortue
Deputy Assistant Secretary for Development Policy and Debt, United States Treasury

M. Jae Moon
Underwood Distinguished Professor of Public Administration, Director of Institute of State Governance Studies, Yonsei University

Shahmar Movsumov
Chief Executive Officer, State Oil Fund of Azerbaijan

Charlotte Slente
Governor for Denmark, Asian Development Bank; and Deputy Political Director, Ministry of Foreign Affairs, Denmark

Moderator:
Vinod Thomas
Director General, Independent Evaluation, Asian Development Bank

Seminar Coordinator:
Hans van Rijn
CENTRAL ASIA, SOUTHERN CAUCASUS AND THE FUTURE OF REGIONAL COOPERATION AND INTEGRATION

Vice President Wencai Zhang discussed the important role that regional cooperation and integration (RCI) has played in helping promote economic development in Central Asia and the Southern Caucasus. He stressed the complementary RCI contributions in transport and energy through the Central Asia Regional Economic Cooperation (CAREC) program—connectivity that has helped drive growth for these landlocked economies. The challenges of human resource and private sector development, along with economic diversification—more acute following the 2014 drop in oil and commodity prices—means the time is ripe to deepen RCI. Global value chain participation, economic corridor development, and working with existing institutions (such as the World Trade Organization) and new initiatives (the new Silk Road) would aid in this process.

The panel discussion covered changes in the external environment—the impact of the plunge in oil and commodity prices, and the influence of the People’s Republic of China and the Russian Federation. Panelists noted that price drops were related to weak external demand—especially in the People’s Republic of China—and were largely cyclical. They stressed that talk about declining Russian influence was premature.

While the audience suggested that RCI should focus on the need for the participation of small and medium-sized enterprises in global value chains and filling institutional gaps, panelists said the way to do this was by continuing to stress infrastructure connectivity—including information communication and technology, and railway modernization. As the cornerstone for RCI intervention, infrastructure connectivity is key to inclusion of small and medium-sized enterprises, economic diversification, private sector logistics, and transit trade—all elements for eventual economic corridor development.

Panelists noted one persistent challenge—the political will to build the trust and confidence for effective RCI projects. Azerbaijan Deputy Minister Sahil Babayev emphasized that stability, security, and domestic reform—for human and institutional development and diversified economic growth—were a prerequisite for effective regional cooperation.

The panelists closed by stressing the importance of complementary RCI interventions like the One Road, One Belt initiative. Policy dialogue and people-to-people connectivity, backed by multilateral and bilateral collaboration—and CAREC Institute work on south–south knowledge cooperation—could make the region an effective RCI enabler between South Asia, the Russian Federation, the European Union, and East Asia.
In countries across Asia, including India, Myanmar, and Viet Nam, governments are tying their economic ambitions to manufacturing-led growth. Will this emphasis on industrial expansion provide pathways for economic mobility and lead low-income workers into the middle class? The International Development Research Centre of Canada and the JustJobs Network sought to answer this question in a seminar panel.

Panelists discussed the issue of developing allied industries and establishing a place for a country in global value chains. Rafaelita Aldaba reported that jobless growth is still a concern in her country despite early employment gains in the automotive and business process outsourcing sectors. The Philippines now sees investments in skills training as a way to make higher value-added products.

Zaw Oo offered insights on the challenge of avoiding the “resource curse” in frontier markets. He said that Myanmar is learning from the experience of other Asian economies by promoting investments in human capital alongside investment in natural resource industries.

Sabina Dewan emphasized the importance of skills development to ensure greater productivity and higher wages. She also drew attention to the Indian experience, saying that most vocational training programs do not line up with young people’s aspirations or the realities of the labor market. As a result, job retention rates are low, which hurts both productivity of businesses and the career trajectories of newly trained youth.

Martin Rama said that the success of current efforts to continue lifting large numbers of people out of poverty would depend on how well Asian countries manage urbanization and infrastructure development. He said that South and Southeast Asian countries now had a “moment of opportunity” to leverage the speed of change and fill in behind richer nations in a “flying geese” pattern. Ms. Dewan added that this could be achieved through diversification of their manufacturing beyond such low-value-added sectors as the garment industry.

Selima Ahmad offered another solution—the involvement of more Asian women in entrepreneurship and decision making, despite the cultural obstacles. She said that women need to have more ownership of economic resources and that engaging women in the work force will lead to better economic outcomes overall.
WHERE ARE ASIA’S CAPITAL MARKETS HEADED?
PLOTTING REGIONAL TRENDS IN THE MIDST OF A TRANSFORMING GLOBAL LANDSCAPE

A full house of about 200 Asian Development Bank (ADB) delegates gathered to hear a high-level panel discuss the transformation of Asia’s bank-dominated financial system into a mature capital market.

Panelists debated the implications of recent developments in both the global arena and in Asia’s domestic capital markets. Delegates heard about the capital constraints facing Asian lenders firsthand from the head of India’s biggest bank and about some of the challenges involved in developing a long-term, domestic investor base to support Asian infrastructure projects.

Green bonds, a fast-emerging funding tool for climate-sensitive projects, were also high on the agenda, and the deputy managing director of Export-Import Bank of India shared his experience as one of Asia’s first green bond issuers. His bank and ADB had both issued green bonds in March, less than 2 months before the seminar.

Panelists also discussed measures under way to stimulate Asia’s capital markets. These included ADB’s work in credit enhancement and the gradual removal of cross-border restrictions by the People’s Republic of China and India. Azerbaijan’s top securities regulator updated the participants on the host country’s capital market development, a particularly important issue in the wake of a slump in the price of the nation’s oil exports.

The audience response included questions on the relevance of the capital markets to the funding of small and medium-sized businesses, widely seen as key players in Asia’s growth story. The panel also addressed questions on the impact of a rising US dollar on Asia’s emerging markets, a pressing concern ahead of a widely expected 2015 rate hike by the United States Federal Reserve.
UNEARTHING THE FUTURE DRIVERS FOR ASIA’S GROWTH PILLARS—PEOPLE’S REPUBLIC OF CHINA, INDIA, INDONESIA

The “Big Three” emerging Asian economies—the People’s Republic of China (PRC), India, and Indonesia—were the main focus at Standard & Poor’s (S&P) Ratings Services’ annual luncheon seminar. Experts on the seminar panel offered a 150-plus audience thoughtful insights, and discussed opportunities and challenges ahead for these three emerging economies.

In his keynote presentation, S&P’s Asia-Pacific chief economist, Paul Gruenwald, said that impressive growth numbers were only part of the story for the Big Three. He noted that much work remains to be done in all three economies to bolster credit quality—citing too much debt in the PRC following an initially successful stimulus; too low earnings in India after an initial boom in investment; and a slow-growing, and perhaps precarious, overall balance in Indonesia. At the regional level, the path of debt has pulled ahead of capital expenditure and earnings, suggesting some credit quality deterioration. So either debt needs to be reined in, or earnings and capital expenditure need to rise.

These comments were based on findings from an April 2015 study published by S&P Ratings: “Top-Down And Bottom-Up Views for Three Big Emerging Asia Economies—Do They See Eye To Eye?” The study used data from S&P Capital IQ—from more than 11,000 companies—to generate indicators to help gauge the quality of growth across key sectors in the PRC, India, and Indonesia.

Other speakers from S&P Ratings and the business community also discussed these issues, and other evolving trends, at both the macroeconomic and sector levels. Panelists addressed the outlook for regional integration, investment opportunities, and policy challenges. The panel also provided a good discussion of the risks and opportunities in the banking systems of the three countries.

A key discussion point during the seminar was whether slowing economic growth and the rapid growth in debt in the PRC—the strongest macroeconomic performer of the three—poses a significant risk to the growth potential of emerging Asia. Overall, most panelists agreed that the potential investment opportunities appear promising in the Big Three economies.
Energy use in Asia has risen dramatically and the governments are implementing new policies to reform energy markets, attract new investments in clean technologies, and bring resources to markets through regional cooperation. A panel of energy sector specialists with experience in developing countries discussed how Asian governments are using new policies to better meet the future energy needs of their growing economies, balancing the demands of energy security, affordability, and environment.

The moderator outlined the long-range trends in energy supply and consumption across Asia, focus on renewable energy and energy efficiency, the role of storage technologies and transmission in enabling this transition, and the wider set of financing options now available to energy projects.

The panel recognized the importance of improving energy access, as Asia is home to about half the global population without electricity. The importance of transmission investments as the key to transfer energy efficiently across borders to markets was noted. The panel acknowledged positive developments in cross-border power trade, which allows large hydropower projects in smaller economies be financed & constructed meeting needs of larger energy-deficient economies, thus benefiting both by creation of new productive assets that offer long-term revenue stream and energy security.

The widespread support for renewable energy and clean technology is supported by ambitious targets set by the governments and rapid uptake in investments in many countries such as the People’s Republic of China, Japan, India, Indonesia, and Azerbaijan. The panel members, however, cautioned of the need for simultaneous investments to enhance transmission capacity and grid stability.

The question and answer session attracted interesting observations from audience ranging from growth in renewable energy, government priorities, skill development, investment opportunities, and implementation issues in developing projects. The moderator concluded that economic growth of Asia depended on governments taking hard decisions at home to reform their power markets, and cooperating across borders to enhance energy security. To manage this transition, and ensure timely implementation of policies, the need to enhance institutional capacity was clearly recognized.
SPONSORED SEMINARS

ADB-ISLAMIC FINANCIAL SERVICES BOARD PANEL: HOW ISLAMIC FINANCE CAN CONTRIBUTE TO SUSTAINABLE GROWTH IN ASIA

The Islamic finance industry has grown tremendously, particularly in recent years. The industry’s global assets are estimated to have exceeded $2 trillion in 2014, up from approximately $140 billion in 1995. Growth is projected to continue, and global demand for Shariah compliant investments is expected to outstrip supply by as much as $100 billion in 2015. Asia is likely to drive most of this growth.

At ADB’s annual meeting, a panel of experts convened to discuss this important topic. They represented such different aspects of the industry as its regulatory bodies, multilateral development institutions, and private sector participants. The panel explored the ways in which Asia Pacific could take advantage of the industry’s expansion and harness Islamic finance as an important funding source for fuelling sustainable development in the region.

The panel highlighted that the principles of Islam require Islamic financial transactions to be backed by assets or activities in the real economic sector and prohibit ambiguous transactions or speculative behavior. Thus, the promotion of Islamic financial transactions can help promote stability in the regional financial system by reducing the system’s exposure to the dangers of excessive financial speculation and overleveraging. Governments also benefit from issuing Islamic financial instruments, as this enables them to diversify their debt portfolios and widen their investor base.

The experts discussed how Islamic funds, such as sukuk (an Islamic financial instrument equivalent of a bond), could help bridge an infrastructure financing gap in the region that may reach $8 trillion by 2020. They also examined how Islamic funds can be used to finance ethical and green investments.

In addition to the great strides made by the Islamic finance industry in the region, the panel looked at the challenges that remain. There is still a need to improve existing regulatory and supervisory frameworks to enable Islamic banks to operate competitively side by side with conventional banks and address specific issues unique to Islamic banks and financial transactions, improve industry liquidity, and raise public awareness about Islamic finance.
The panel discussion focused on the increasingly complex challenges confronting city planners. These include meeting the immediate needs of a city’s citizens, such as having robust action plans to deal with sudden emergencies and the capacity to manage both physical and virtual (such as cyber threats) incidents. They must also formulate long-term plans to pursue the sustainable use of renewable energy, cope with environmental issues, and mitigate natural disasters. It is the duty of city planners to build efficient, resilient physical and technological infrastructure to deal with the potential threats these challenges pose to a city’s operations and sustainability.

The NEC approach involved three key points: the uniqueness of “smart cities”; solutions for safer city and disaster management; and the role of information and communications technology (ICT) in building safe, smart, and disaster-resilient cities.

The approach presented by ADB highlighted (i) development issues in urbanizing Asia; (ii) urban operational plans; (iii) urban financial options, and (iv) ICT and disaster resilience. ADB also discussed examples of and future directions in the use of ICT in such key areas as disaster risk management, urban development and services, transport, and energy.

The Department of Science and Technology of the Philippines discussed the use of emerging ICT technologies in disaster management. The panelist presented Philippine case studies of such ICT use in national earthquake and tsunami monitoring, satellite communication, 3-D mapping, and the operations of meteorological facilities and intelligent operations centers.

The Japan Aerospace Exploration Agency’s presentation on the applications of space technology to make cities more resilient to disasters paid particular attention to case studies of disaster solutions on which the agency and ADB had collaborated.

In response to the presentations, audience members pointed out that disasters frequently cause city-wide electricity blackouts that make it impossible for the public to use even their mobile phones. This showed that ensuring a stable power supply is crucial for ICT to play its key role in a city’s disaster resilience. They also noted the importance of making ICT easily accessible and simple to use for all citizens. NEC concluded the panel discussion by affirming the need to make ICT an important part in solving social issues and the need for further collaboration among ICT providers, financial organizations, and governmental agencies to achieve this objective.
ADB welcomed the participation by accredited civil society organizations (CSOs) and nongovernment organizations (NGOs) in its 48th annual meeting in May 2015. A total of 143 representatives from important CSOs in 32 countries took part in a civil society program (CSP), including 34 from the host country Azerbaijan.

Organized by ADB’s Nongovernment Organization and Civil Society Center, the CSP opened with a 1-hour question-and-answer period with ADB President Tekehiko Nakao. In line with the meeting theme—“Fostering Partnership for Development”—the discussions underscored the importance that ADB attaches to collaboration with its members and other stakeholders, including NGOs, labor unions, foundations, and community-based groups.

The 11 CSP events included 4 civil society panel discussions, 5 learning-with-partners knowledge-sharing sessions, and a youth debate. The program was organized by ADB in coordination with key CSOs in the ADB region to enable dialogue and knowledge sharing within civil society to promote partnerships with other development partners.

**Civil Society Panel Discussions**

The topic of the first civil society panel was the role of international finance institutions beyond 2015, when the Millennium Development Goals era comes to an end. It was jointly organized with the NGO Forum on ADB. The participants discussed the drive for private sector involvement and investment in both development and climate financing and how this would affect progress in these two areas. The meeting highlighted the need for meaningful CSO participation both in monitoring and implementing development projects.

FOR MORE INFORMATION:

*NGO and Civil Society Center*
Asian Development Bank

Christopher I. Morris
Head, NGO and Civil Society Center

Website: ADB and Civil Society
adb.org/civil-society
The second CSO panel looked at how the safeguard policies of some multilateral development banks impact development financing and was also jointly organized with the NGO Forum on ADB. The panel examined a variety of ADB safeguard standards and practices, as well as issues related to the newly created Asian Infrastructure Investment Bank, the International Finance Corporation, and the World Bank. The Deputy Director General of ADB’s Regional and Sustainable Development Department (now known as the Sustainable Development and Climate Change Department), Nessim Ahmad, was one of the panelists.

A forum on inclusive growth and food security, jointly organized by the AgriCord and Oxfam, assessed the need for financial institutions such as ADB to design and monitor projects in ways that deliver benefits at the household and individual levels. This need is based on the premise that food security is a prerequisite for reducing inequality and promoting inclusive growth, sustainable development, and political stability. ADB Independent Evaluation Department Director General Vinod Thomas joined the panel.

The fourth civil society panel explored the impacts of infrastructure financing on grassroots communities and what the entry of the new Asian Infrastructure Investment Bank could mean for good governance and safeguards in development financing in Asia. The panel also discussed the impacts of large ADB investments in major transboundary infrastructure projects and the impacts of public–private partnerships. Stephen Groff, ADB Vice-President, was one of the speakers.

Learning with Partners

The five learning-with-partners sessions began with a discussion of sustainable financing and the economic benefits of protecting nature in the southern Caucasus. The forum shared innovative, best-practice examples of innovative financing for sustaining the natural capital of the area and how these approaches can contribute to economic development. The discussions emphasized the value of community engagement to green infrastructure.

A session on how partnerships between governments, CSOs and the private sector was organized by ADB, the International Federation of Red Cross and Crescent Societies, Global Road Safety Partnership, and Hayat National NGO to share effective practices and replicable ways to help reduce road crashes and deaths. Participants noted that road safety requires long term behavior change. Safe roads and transport must be in place to initiate this process.
The learning-with-partners session on recent developments in civil society, governance, and inclusive economies highlighted the crucial contribution to be made by CSOs in promoting transparency and accountability in public services. It noted the growing demands from civil society for better information disclosure by governments. Bart Edes, Director of ADB’s Social Development, Governance, and Gender Division, welcomed the knowledge sharing and talked about the value of partnerships between governments, the private sector, and CSOs.

Plan International co-organized a session with ADB on lessons from disasters and creating resilient communities. Plan International Communications Director Mark Pierce was patched via video call with Nepal so that participants could be updated on the situation following the April earthquake in the country. He also shared current reports from the organization’s Nepal base camp and the status of its relief efforts.

The fifth learning-with-partners session examined the importance of information and communications technology as a “great equalizer” in inclusive development efforts. True to its theme, the session made use of videoconferencing software that allowed the discussion to take place in Baku in Azerbaijan, Chennai in India, and Manila in the Philippines at the same time.

Fifth Voice of Youth Debate Grand Finals

The Fifth Voice of Youth Debate began with preliminary debates on 30 May 2015 at ADA University in Baku in which teams from Azerbaijan, Georgia, Kazakhstan, the Kyrgyz Republic, and Tajikistan competed. The teams from Azerbaijan and Kazakhstan emerged as the two top finishers and in the grand final debated on the motion that the problems of social inequality are better solved by CSOs than by government. Kazakhstan, which opposed the motion, emerged as the unanimous winner.
Economic diversification has become more important for resource-rich members of ADB, including Azerbaijan. The Minister for Economy and Industry, Shahin Mustafayev, began the seminar by stating that the President of Azerbaijan recognizes that diversification is of vital importance to the long-term, sustainable development of the country. His Azerbaijan 2020 Vision recognizes that while the oil and gas sector contributes most to the gross domestic product, it provides limited employment opportunities to the people. Only the non-oil sector can provide significant employment opportunities for the growing population.

President Nakao said it was encouraging that the country’s oil resources had been used wisely to lay stable foundations for development of the non-oil sector. He complimented the 100% literacy rate in Azerbaijan, and suggested the next stage was to improve the quality of education necessary for continuing development of the non-oil sector.

The panel showed that Azerbaijan has made much progress toward this goal. The non-oil sector has grown at 7% in 2013 thanks to an improving business environment based on political stability, growth of the private sector, and a clear vision for the future.

These achievements were reinforced by Alex Wong of the World Economic Forum who cited the impressive ranking of Azerbaijan at 38th in its Competitiveness Index. This was above many of Azerbaijan’s key competitors such as Kazakhstan and Turkey. He noted that Azerbaijan would need to improve the quality of its education system to move to the next stage of development.

Inam Karimov of ASAN Services showed how Azerbaijan was addressing key issues. He noted that ASAN, which means “easy” in Azerbaijani, had eliminated corruption in the delivery of public services to citizens. The one-stop shop service has outsourced the customer service functions of government departments to create a transparent environment.

The opening seminar reflected Azerbaijan’s impressive achievements to stimulate the non-oil components of its economy, but highlighted the challenges it will meet as it moves toward an innovative and diversified economy.

Panelists:
- Vugar Farman Aliyev
  Managing Partner, KPMG Azerbaijan
- Inam Karimov
  Chair, ASAN Services
- Zakir Ibrahimov
  Chair of the Executive Board, Tamiz Shahar JSC
- Rufat Mammadov
  Head, Azerbaijan Export and Investment Promotion Foundation (AZPROMO)
- Shahin Mustafayev
  Minister of the Economy and Industry, Azerbaijan
- Takehiko Nakao
  President and Chairperson of the Board of Directors, Asian Development Bank
- Rossen Popazov
  General Director, Holcim Azerbaijan
- Alex Wong
  Senior Director, World Economic Forum
- Taleh Ziyadov
  Director General, Baku International Sea Trade Port (Azerbaijan)

Moderator:
- Rovshan Najaf
  Head, Azerbaijan Investment Company
CNBC DEBATE

Panelists:
Mohammad Ishaq Dar  
Governor for Pakistan, Asian Development Bank; and Minister of Finance, Pakistan

Ram Sharan Mahat  
Governor for Nepal, Asian Development Bank; and Minister of Finance, Nepal

Rajiv Mehrishi  
Alternate Governor for India, Asian Development Bank; and Secretary, Department of Economic Affairs, Ministry of Finance, India

Takehiko Nakao  
President and Chairperson of the Board of Directors, Asian Development Bank

Moderator:
Susan Li  
Anchor, CNBC

CNBC, an international media partner of ADB and Azerbaijan at the ADB annual meeting, held a debate on 3 May 2015. Discussions focused on the aftermath of the earthquake that occurred in Nepal on 25 April and the potential for a South Asian economic miracle.

President Takehiko Nakao joined a panel with Nepal Finance Minister and ADB Governor Ram Sharan Mahat, Pakistan Finance Minister and ADB Governor Mohammad Ishaq Dar, and India Finance Secretary Rajiv Mehrishi. CNBC anchor Susan Li moderated the debate which was recorded live and later packaged into a 30-minute program, the CNBC Debate.

The program was broadcast 14 times on CNBC on 16 and 17 May in Asia and the Pacific, Europe, the Middle East, and Africa. It reached a potential audience of about 145 million households; and 4.6 million opinion leaders, financial decision makers, and investors.

Watch video coverage:
http://bcove.me/k9praljy
About the Asian Development Bank

ADB’s vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region’s many successes, it remains home to the majority of the world’s poor. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.