

Working Paper 267

Growth and Poverty in Asia: Where Next?

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Summary¹

Background

Economic growth has been exceptionally rapid in Asia, with several countries achieving GDP growth rates of over 6% annually over the last 20 years.² Growth is largely export-led, with high rates of foreign and domestic investment. It has had a dramatic effect on poverty, with 22% of a growing population still living in poverty in 2000, down from 32% in 1990,³ and offers the prospect of eradicating poverty within a generation.⁴ The policy focus in E and SE Asia has been largely on growth, with important initiatives towards liberalisation, stability, the promotion of private investment, infrastructure and skill development. Whilst growth promotion has also been important in S Asia, the proportion of public expenditure allocated there to service delivery and social protection is currently larger than in E and SE Asia. Successes in growth and poverty reduction is not guaranteed: it can be threatened by a wide range of factors, including changes in international trade and investment climates, slowing of the global economy, or rapid rises in the prices of primary commodities (especially energy). Nearer to home, environmental degradation, outmoded institutional arrangements, weak governance⁵ and infrastructure deficiencies may be constraining development. There is substantial scope for improvements in managing internal migration and urban expansion, and in accelerating the rate of inclusion of certain regions and population segments not only in the benefits of growth, but also in programmes of basic service delivery (in e.g. health and education) and in social protection.⁶ There is also scope for improving transparency and accountability in the making and implementation of public policy.

Asian countries are leading their own development and can build on this success by strengthening measures to accelerate poverty reduction. Currently, the world's fastest growing region also contains more than two thirds of the world's poor. Progress towards targets embedded in the Millennium Development Goals (MDGs) is uneven, and, as the September 2005 Millennium Review Summit notes, faster progress is needed if goals are to be achieved, particularly against the 'non-income' MDGs.

Against this background, the March 2006 London conference *Asia 2015: promoting growth, ending poverty*, co-sponsored by DFID, the World Bank and the Asian Development Bank, provided space for new thinking on how the challenges have been successfully addressed in different Asian contexts, how these lessons might be replicated or adapted elsewhere, how development agencies⁷ can support policy change, and what this, and the growing stature of Asian countries, means for partnerships between them and governments. This paper serves as background to the conference, setting out the context, and pointing to some future challenges and possible areas for action by Asian governments in partnership with the international community.

¹ This paper is largely a synthesis of other materials presented at the Asia 2015 Conference, details of which can be found on the website (www.asia2015conference.org). We are indebted to DFID for funding the preparation of these materials, and for permission to publish, but the ideas and interpretations presented here are those of the authors alone.

² Though in this, as in other indicators, there is wide diversity among countries in the region

³ Asian Development Bank 2004: 5

⁴ Against MDG goals and targets, though it is acknowledged that these capture only the worst poverty

⁵ Governance has a wide variety of meanings, ranging from a narrow concern with the manner in which the state manages public goods and services, through to the accountable, transparent, and legitimate use of state power. Other definitions emphasise the importance of participation in decision making processes as an integral aspect of governance. From the perspective of this conference, the extent to which the state creates an institutional environment that maximizes the opportunities for growth and poverty reduction is the most critical dimension of governance.

⁶ Conference sessions are structured to address these sets of constraints and opportunities

⁷ Development agencies are loosely defined here to include official bilateral and multilateral donors, and International Financial Institutions, but not private commercial or non-profit organisations, which are specified separately.

Future Trends

The kinds of challenge that growth and development face in a rapidly-changing Asia mean that 'business as usual' in government, development agency policies is unlikely to generate optimal combinations of growth and poverty reduction. This paper argues that, in the approach to 2015:

- Asia will continue to experience strong economic growth led by a vibrant commercial sector, with a growing share of global GNP, exports and imports.
- There will be continuing strong progress towards the reduction of income poverty, though performance against many other indicators will be mixed.
- There is likely to be a worsening of environmental indicators, with increasing air pollution, reduced groundwater availability, reduced availability of cultivable land (and/or reductions in its quality), reduced forest cover, and continued illegal logging. Some, such as air and water pollution, and management of shared water, have cross-border implications.
- The current 60:40 ratio of rural to urban population will be reversed in many countries, with a continuing strong flow of internal migration into the cities, though wide variation in the extent to which such migration is harnessed in the interests of growth and poverty reduction.
- There is likely to be a broadening of participation in political and economic decisions, with increasing numbers of civil society organizations, rising public consciousness of citizens' rights, and growing protest over such matters as corruption, environmental degradation and social exclusion.
- Some reduction in long-entrenched discrimination e.g. against women and marginalized groups may occur as a result of this trend, but major disparities will remain in several countries.

Poverty Reduction to 2015 and Beyond

The transition from predominantly rural- to predominantly urban-based activities represents a pervasive trend across Asia. This does not imply an absolute decline in e.g. the size of the agriculture sector, but a reduced share in GDP, exports and employment. The transition is well-advanced in most E and SE Asian countries, and less so in S Asia, and there are countries (Lao PDR, Cambodia, Burma) which are likely to remain predominantly agrarian until at least 2015. But this transition, together with fundamental demographic change – extended life expectancy, reduced fertility rates, and at present a high ratio of working to non-working population – mean that the challenges faced by Asian economies are becoming more intense, and in some cases, different from past experience. This is due to the speed of these changes, the constraints on policy/policy instruments accompanying the current phase of globalization, and the way the benefits and risks of economic transition and deeper integration into the global economy are distributed. As a consequence, both rural and urban poor face new kinds of insecurities. At the same time, for emerging economies such as Vietnam and China, these rapid changes have coincided with a period during which the welfare provisions of state enterprises have diminished as they have downsized, often leaving fewer tools and resources in the hands of government to address these risks.

To achieve faster poverty reduction, especially against non-income MDGs, is partly about fuller engagement with growth processes, and partly about higher and more effective public expenditure, better focused on crucial areas and groups. But it is also about the more deeply embedded patterns of social discrimination in both society and public sector institutions which make it difficult to ensure resources are used as intended.

In relation to the MDGs, the overall picture is:

- Incomes will continue to rise, with those living on less than one dollar a day decreasing to 20 million in 2015 in S.E. Asia, and to 220 million in S. Asia.
- But levels of malnutrition are falling only slowly: slightly under half the countries in the region are likely to be on-track against the target to halve hunger by 2015.
- Enrolment in basic education is rising but there is scope for improvement in quality and access.
- Gender equality shows a mixed picture: girls' participation in primary education has been increasing but with high dropout rates, and there are still big differences in women's opportunities and outcomes.
- Rates of maternal and child mortality have improved, but most countries in the region face the challenge of reducing child mortality by around two thirds.
- Behind the averages, rates of child and maternal mortality are higher for disadvantaged groups such as ethnic and religious minorities and lower castes
- Progress on reducing the disease burden in the region has been mixed. Overall HIV prevalence rates in the region are low, but rising, and the absolute numbers involved are very large. Effective prevention programmes against common diseases such as tuberculosis are yet to be implemented in most countries, and hampered by recurrence and drug resistance in others. New diseases such as SARS and avian flu present particular challenges
- Access to improved water sources and sanitation is increasing, albeit at a slow rate, and from a low baseline.

Policy and Priorities to 2015

Six broad areas offer substantial scope for new policies that can accelerate progress against the MDGs in the future, and a parallel session at the conference will be allocated to each:

- ***Making the best use of resources and energy, and the environmental impact of rapid growth.*** Natural resources are assets for growth and are important for the livelihoods of poor people. A central challenge is to ensure that profits from resource extraction are invested into activities capable of generating pro-poor growth. Managing the potentially conflicting, but not necessarily irreconcilable claims on natural resources between rural communities and local elites or outside entrepreneurs is a growing concern. With rising demand it is becoming more urgent to look at new ways to minimise the excessive draw-down of water, land, forests and fisheries resources, to minimize pollution and to increase energy efficiency, including in terms of green house gas emissions. Natural disasters are also likely to demand more attention from decision makers and civil society.
- ***Sustaining the private sector.*** This includes the enabling environment (improved legal, financial and administrative frameworks; re-skilling...) as it relates to manufacturing, service provision, and agriculture.
- ***Closing the infrastructure gap.*** The challenges include developing the key national and regional networks (transport, energy, ICT in particular) against a background of rapid urbanisation, to integrate remote regions, and to get the balance right between public and private ownership. There is scope to harness far more intra-regional private investment for infrastructure to create growth.
- ***Regional disparities, poverty and exclusion.*** Rapid shifts towards industrialisation and urbanisation will make Asia in and beyond 2015 very different from now. The wide variations in policy towards urbanisation and migration provide fertile ground for cross-learning, and experimentation with new policies. New approaches will be needed to address the new types of poverty emerging as cities boom, and for remote rural areas, conventional approaches such as support to agriculture and infrastructure investment will have to be balanced with support to seasonal, temporary, and permanent out-migration.

- ***Targets, voice and choice – effective service delivery for human development.*** Growth in Asia provides a tax base for funding pro-poor services and transfers, so providing a major opportunity for getting all above a minimum threshold. This is especially relevant to access to and quality of health and education services for the poor. There is also scope for learning within the region from varied experience in service design, delivery and social inclusion.
- ***Asian-led strategies for improving governance and the effectiveness of state institutions.*** There are major opportunities to build on some countries' experience of upgrading the capacity and efficiency of government institutions. Capability to collect tax revenue and channel it to basic services and infrastructure for the poor is crucial, as also is reduced leakage of public resources. Regulation of the private sector, improving corporate governance, and action to improve the investment climate are also important. Citizens themselves, with support from civil society organisations, have influenced these processes by voicing their needs and identifying opportunities for growth and poverty reduction such as in the co-management of natural resources and procurement of services.

Towards New Partnerships

Asian countries can sustain growth and accelerate poverty reduction into the future by addressing the constraints and seizing the opportunities outlined above. More extensive implementation of proven policies and instruments in some areas, together with the design of new ones in others, will support them in doing so. New forms of partnership with development agencies may prove useful in both of these contexts. While slower-growing countries will continue to rely heavily on financial support, new partnerships may form increasingly around mutual interests in e.g. trade, debt relief, security, remittances and environmental issues. The search for new ideas on the actions required by Asian countries and the international community to establish 'New Partnerships' is central to the conference.

1 Introduction

The development ‘story’ emerging from Asia⁸ is in many respects resolutely positive. Export-led growth strategies, with high rates of domestic and foreign investment, and involving public investment in infrastructure, skills and technology, mean that several Asian countries have been able to achieve rates of growth above 6.0% in real terms in the last two decades, and the proportion of Asians living in poverty has decreased from 32% of a growing population in 1990 to 22% in 2000.⁹ While patterns of success have varied across the region, its two largest countries, China and India are driving not only regional but global trends in growth, poverty reduction, trade, the environment and finance. For example, China produces between 30% and 50% of the world’s PCs, DVD players, cameras and TV sets, 83% of its tractors, and accounts for 40% of global cement consumption and 8% of oil consumption.¹⁰ It has major investments in US and other bond and property markets. The newly industrialising economies of Southeast Asia appear to have staged some recovery from the region-wide financial crisis that struck during the late 1990s and are showing early signs of a return to sustained high rates of economic growth. For all of these reasons, the fates of the slower-growing countries in Asia are linked to those of the faster-growing, and Asia’s future is inextricably tied to broader economic, political, social and environmental trends. Instability in these, either globally or within the region, can destabilise growth in Asia and halt or reverse recent trends.

Despite wide diversities in the region – of economic, social and political histories, of resource endowments, and of rates and patterns of growth – common lessons can be drawn from past experience, and future issues of likely common relevance highlighted. For the discussion that follows, these will often be grouped into South and East/Southeast Asian experiences, with specific country differences drawn out as appropriate.

The line of argument underpinning the paper is this:

- The success of Asia offers the prospect of eradicating poverty within a generation, and so offers encouragement to other regions where progress on development has been more elusive.
- Nonetheless, two thirds of the world’s poor live in the Asian region, so that much work on poverty reduction is still to be done.
- Nor are past successes guaranteed into the future: growth may be unsustainable in the face of environmental damage, or the difficulty of meeting energy needs, of putting in place the institutional and infrastructural conditions for continued growth, or of responding to pressures rooted in socially and spatially uneven growth. The challenge is to put in place the conditions for continued rapid growth and to ensure that growth creates opportunities for all to benefit, whether as entrepreneurs, employees or consumers.
- Income poverty has been considerably reduced but in many other aspects poverty is still chronic and widespread especially in South Asia. Reduced income poverty may generate a ‘virtuous circle’ of improved governance, a slowing of inequality, greater social cohesion and improved security. But there is nothing automatic about this process: it requires perceptive and consistent policy interventions, and can easily be undermined by widening inequalities.
- The Millennium Development Goals provide pointers to areas where more can be done.

⁸ Of central interest to this paper are 11 Asian countries: Bangladesh, Cambodia, China, India, Indonesia, Lao PDR, Nepal, Pakistan, Philippines, Sri Lanka and Vietnam. For comparative purposes, occasional reference is made to other Asian countries, including high- and middle-income. In the context of ADB, ‘Asia’ includes all developing member countries in Asia plus small island countries in the Pacific. Unless specified otherwise, ‘Asia’ in this paper will refer to this broader category of countries.

⁹ Asian Development Bank (2004)

¹⁰ The Guardian, London, 7 November 2005

- Increased economic power in Asia means that the region will play a growing role in international governance fora, but will also increasingly face many of the same challenges as do industrialised countries, whether in international security, energy or environment.
- This opens up the prospect of a shared agenda between developing and developed countries: to reduce poverty and inequality is in itself a shared agenda insofar as this reduces social upheaval and security risks for all, but new opportunities are also presenting themselves for combining development assistance with joint action on the environment, energy efficiency, aspects of trade and financial stability.

Development assistance has played a supportive role but in many Asian countries aid flows have been, or are now, a small proportion of GDP. Future financial support will tend to be concentrated on the lowest income countries.

The paper outlines Asia's development progress to date and looks forward to and beyond 2015. It is structured as follows:

- In the next section, we briefly review the recent trajectory of Asian success, including factors underpinning emergence of the 'tigers', the financial crisis of 1997-1998 and the recovery of Asia after the crisis.
- The third section focuses on the likely Asian trajectories, emphasising both opportunities and challenges.
- Against this background, the fourth suggests some ideas for action to sustain growth and poverty reduction, identifying options for Asian governments and the potential role of the international community.
- The final section discusses the partnerships which may contribute to sustained success in Asia both within and outside the region, and draws conclusions.

Arguments in the second, third and fourth sections lay at the core of the *Asia 2015* conference, and the six dimensions of the agenda for action set out below correspond directly with conference sessions, as does the theme of new international partnerships.

2 The Asian Success Story – the What? How? and Why?

Whilst trends have been far from uniform across the region, progress not only in growth, trade and investment, but also against political and social criteria, has been impressive, as the following overview suggests.

Development has been driven largely by the private sector. Impacts on poverty have been through increased (and better paid) employment, higher returns to self-employment, reduced real prices of goods and services and the generation of a tax base by the private sector for public investment, service delivery and transfer payments. In most Asian countries this success built on a **Green Revolution** led by new technology and investments by small farmers. China and Vietnam also introduced reforms to liberalise decision making in farming and support services from central control. Land reform in some countries helped to ensure that benefits from growth were more evenly distributed (Kihwan and Leipziger, 2000; Putzel, 2000). Agriculture-based progress led to both lower real food prices and improved livelihoods from farming in many countries, as well as serving as a springboard for farm exports and for vigorous rural non-farm and urban economies. Agriculture-based growth strategies represent ‘unfinished business’ in several slower-growing countries, including Cambodia, Laos and Burma. But in China and parts of South East Asia they created the foundations for a domestic mass market for consumer products alongside export-driven growth in labour-intensive manufacturing, with similar patterns in garments (Bangladesh and Cambodia), tourism (Sri Lanka), and financial, IT and other services (e.g. in India). Increased incomes have ‘second-round’ effects on agriculture, with disproportionately rapid demand increase for fruit, vegetables, meat and dairy products, as well as for non-timber forest and agro-forest products such as rattan and vanilla.

Export-led growth helped China’s GDP to grow at around 9% a recent years, and India’s at 6%. Whilst particular difficulties have meant that some countries in Asia have grown very slowly (e.g. Afghanistan and Nepal at 1% – 2% p.a. in the last 5 years), most have grown in the 4% – 8% range. In 2003, the region accounted for 27% of global exports, up from 16% in 1980.¹¹ Asian demand for imports is driving global prices, particularly in energy and other primary commodities. Total imports and exports of goods and services amount to around 75% of China’s GDP, against 25% – 30% in India. Many countries in Asia also have correspondingly high **investment** rates: China is the world’s top destination for FDI and domestic savings rates across Asia are some of the highest in the world (Rahman, 2005). Asia now occupies a strong position in terms of accumulation of international reserves: Asian Central Banks accounted for some 77% of global foreign currency reserve increases in 2004, giving them substantial international financial influence.¹² Many countries in the region have undertaken **economic reforms** that have sought to reduce the role of the state in production and marketing, create a more favourable business climate, and improve the access to markets enjoyed by poor people. In some, this has been accompanied by **administrative reform**, seeking a slimmer and more efficient public service. Increased political and administrative decentralization have also been on the agenda. Former command economies have, in addition, changed the entire basis of production and marketing, allowing decisions to be taken by private economic actors instead of by *fiat*, and providing them, in greater or lesser measure, with assured rights to resources in order to do so.

Other countries in the region are strongly affected both positively and negatively by the rapid growth of China and India. Many have benefited through the lower prices to consumers brought by imports from China, and from inward investment, and may benefit by providing the kinds of imports that India and China require, though for the short/medium-term at least, these are likely to be the kinds of primary products with which Africa and the Middle East are better endowed than Asia. On the other hand, they face adjustment problems as domestic industries have been forced to adapt to the loss of both their own and international market share. Whether they can sustain even moderate rates of growth is

¹¹ WTO – see www.wto.org/english/res_e/statis_e/

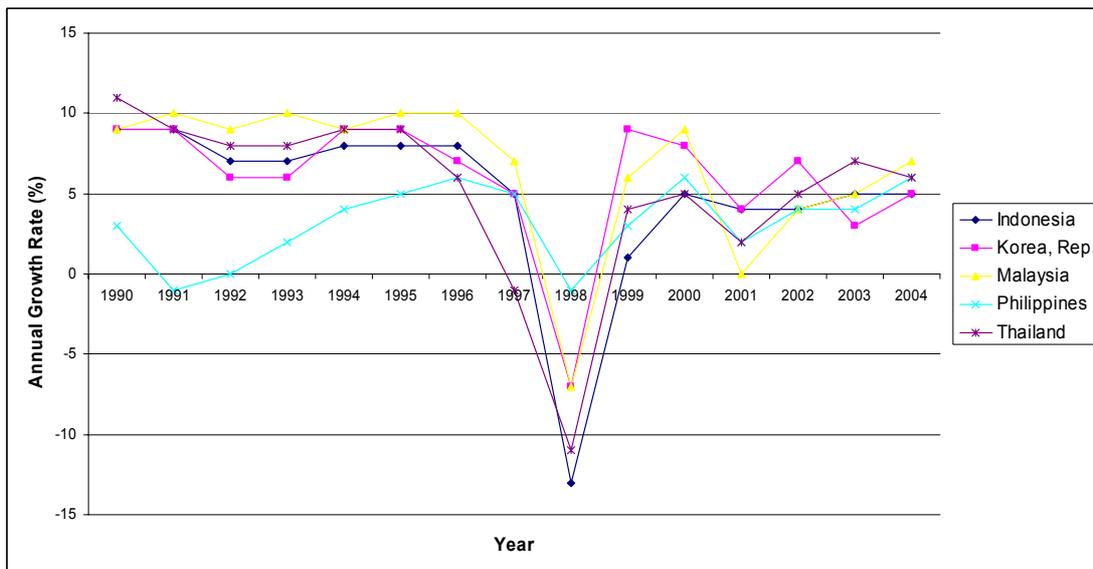
¹² (Roubini & Setser, 2005: 34)

uncertain. They are unlikely to do so unless policies relevant to growth are adjusted in the light of both global and regional dynamics, particularly the future trajectories of India and China (Kaplinsky, 2005).

With some cross-country variations, Asia's achievements in growth, trade and investment have translated into rapid *poverty reduction*.¹³ In China, for example, the number of people living on a dollar per day fell by 170 million between 1990 and 2000; in fact, in the past 20 years, 75% of poverty reduction in the developing world has happened in China.¹⁴ In Indonesia, the proportion of people living below the national poverty line has fallen from over 40 percent in the mid-1970s to less than 20 percent in 2002.¹⁵ The Global Monitoring Report (2005) predicts that by 2015, the number of people living on less than \$1 a day will decrease from 217 to 19 million in East and Southeast Asia, and from 431 to 216 million in South Asia. In some cases, including China (see Figure 2) growth has been accompanied by widening income inequalities which have the potential to trigger social unrest.

As Annex 1 indicates, progress on other Millennium Development Goals has been uneven – for instance, high dropout rates have tended to negate higher enrolment in primary education – or consistently slow, as with reductions in child and maternal mortality, access to safe drinking water and improved sanitation, and reductions in gender inequality and in the disease burden. Section III discusses the challenges in more detail. The increased role and visibility of non-state providers of public services is a significant trend in several countries in the region. This is most evident in Bangladesh where NGOs now account for a significant share of health services and education programmes, with positive results for MDG attainment.

Figure 1: Selected Asian Growth Rates, 1990 – 2004



Source: IMF International Financial Statistics

Investment in Asia, although high, was often of poor quality and this, combined with fixed exchange rates and open capital accounts, helped to precipitate the 1997 crisis, with ensuing negative growth (Fig. 1). This began as a speculative attack on the Thai *baht* in the summer of 1997 and quickly spread

¹³ Annex 1 contains an overview of progress against MDGs and corresponding targets

¹⁴ Statement by Paul Wolfowitz, October 2005, The World Bank Group, available at <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/EASTASIAPACIFICEXT/CHINAEXTN/0,,contentMDK:20679041~menuPK:318970~pagePK:141137~piPK:141127~theSitePK:318950,00.html>

¹⁵ The figures for the two years are not strictly comparable because of changes in the methodology for calculating the national poverty line during the period in-between, but it nevertheless clear that there has been a marked downward trend.

across the region to South Korea, Malaysia, Indonesia, Hong Kong and the Philippines, with, for instance, a 13.7% contraction in Indonesia's real GDP in 1998 and a 6.6% contraction in the Philippines agriculture sector. Recovery from the crisis, while varied across the region, has encouraged acknowledgement of the role played by government in 'owning' growth and development agendas (Chang, 2002).

In summary, most Asian states have been *developmentally oriented*, and have helped to promote high rates of *growth*. Despite problems of corruption and inefficiency in some states, they have generally provided the institutional and infrastructural conditions for growth, and, perhaps to a lesser degree, for growth to translate into poverty reduction. *Openness to international trade and investment* has also been crucial in achieving access to larger markets, generating investment flows and raising the competitiveness of manufacturing industries. China has excelled in this mode, though other fast-growing countries scattered throughout Asia are successfully pursuing similar models. There remain vestiges of earlier approaches in which business groups expected close collaboration with the state in planning, licensing, investment etc, through a range of public-private consultation mechanisms (Loathamatas 1992; Doner 1991; Hawes and Liu 1993; The World Bank, 1993; Wade, 1990). Growth and rising incomes have often *created the conditions for reform* with a more active demand for improved governance by citizens and the private sector. The quality of governance exerts a strong influence on the nature and quality of the 'developmental state', in its role of creating an enabling environment for private investment. But efforts to make states more developmentally effective and to reduce the misuse of funds tend to have little impact in the absence of political commitment or strong demand from civil society and the private sector.

3 Future Scenarios – Challenges to Growth and Poverty Reduction

While Asia's recent successes make the future look bright, the region inevitably faces further challenges. This section first sets out a central development scenario and then examines a number of challenges.

3.1 Central and Alternative Scenarios

Most analysts believe that Asia's young populations, high domestic savings rates, and the base at which they are starting from, means that most countries will keep growing in the 4% – 6% range for at least two decades, with India and China achieving significantly higher rates.

On this performance, by 2015, five Asian countries (China, Japan, India, South Korea and Indonesia) will constitute almost half of the global economy in purchasing power parity terms, and China's GDP will be roughly equivalent to that of the USA. By 2015, India's GDP will be roughly 60% of that of the European Union. High growth of these magnitudes constitutes the basic scenario in Figure 2, with lower growth taken as an alternative (see notes accompanying Figure 2).

Rising balance of payments surpluses will increase the influence of Asia – particularly of China and India – over international financial architecture and operations, strengthening its arm in negotiating international trade and commodity agreements. Its role in forums such as the WTO and regional trading arrangements will be increasingly crucial to successful global trading patterns.

More broadly, the strong base at which Asia is starting, and the prospects for continued success, increases Asia's opportunity to act as a driver for development in other parts of the developing world. Asian firms based in China, India and other rapidly growing Asian economies are likely to expand their operations in other low-income countries, as China is already doing for commodity production and related infrastructure (Kaplinsky 2005: 5). Recent reports have focused on Indian investment into Bangladesh, Chinese investment into Vietnam, and Chinese investment in Africa (e.g. Angola) and Latin America.¹⁶ As these activities expand and the operations of these companies achieve higher regional and international profile, the opportunities – and pressures – seem likely to increase for them to play responsible 'international citizenship' roles, respecting international conventions on e.g. labour conditions, environmental safeguards, and the arms trade.

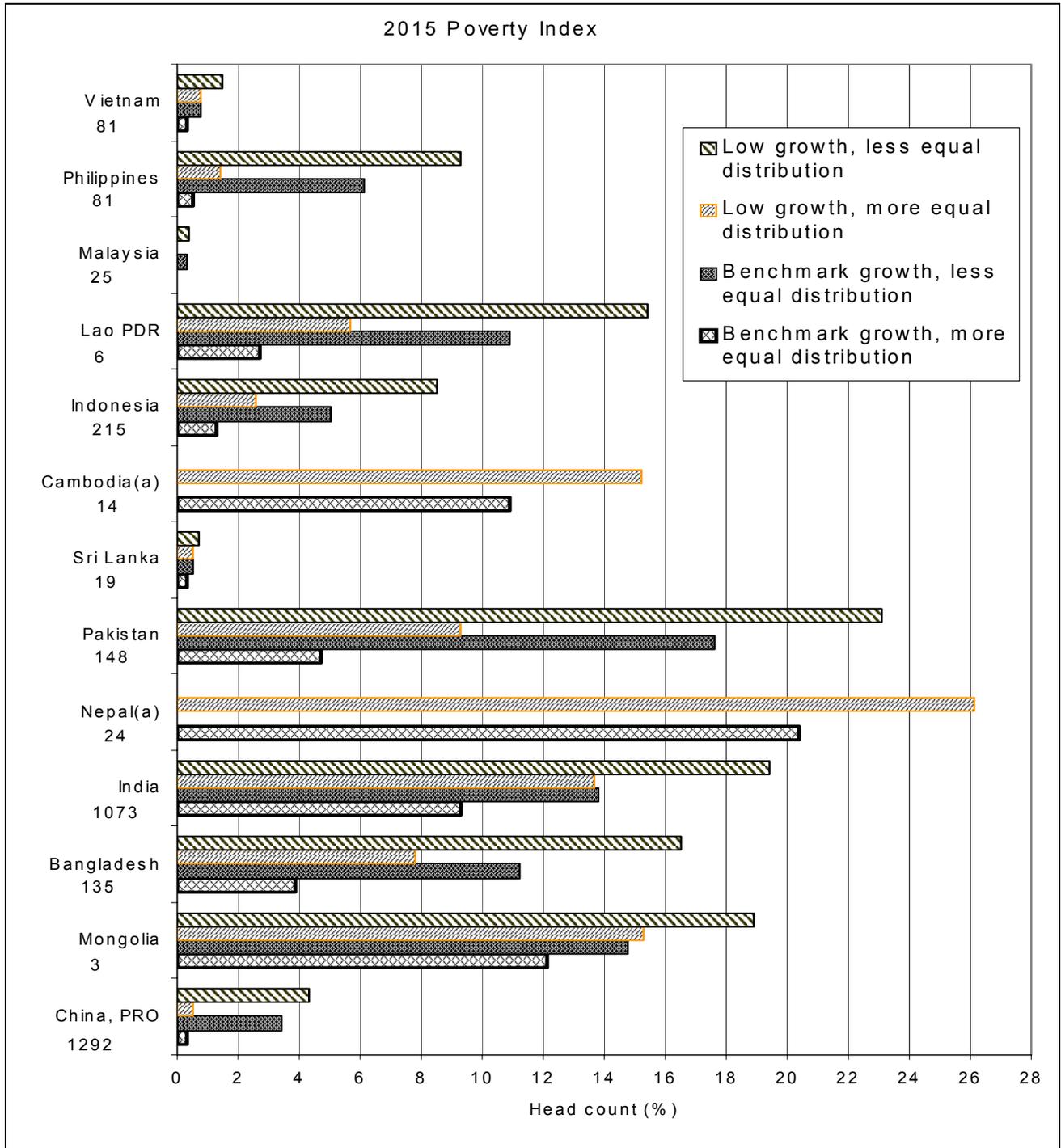
However, the pace and poverty-reducing effects of future growth are not assured. It can be threatened by factors exogenous to the region such as global economic slowdown, adverse changes in trade or investment regimes, or insistence in some major trading nations or blocs that newly-acquired trade surpluses and the upsurge in investable funds accompanying them in some Asian countries are destabilising and need to be reined in. Similarly, concerns over global climate change may generate pressures among the environmental lobby for large Asian countries to cap their growth until their energy-use efficiency can be increased. Close to home, challenges are growing in terms of potential environmental damage, the price and availability of energy and primary commodities, the need to put in place the institutional and infrastructural conditions for growth, and to respond to pressures rooted in socially and spatially uneven growth. Increased energy and commodity prices would slow future growth as would ongoing problems in providing infrastructure requirements of appropriate quality in a timely manner

To forecast the poverty-reducing impact of aggregate levels of growth is problematic enough. The uncertainties involved in estimating the impacts of specific changes in commodity prices, or of shortcomings in e.g. infrastructure are enormous. Rather than take this route, this paper relies instead on ADB estimates of differences in poverty headcount ratio under high and low growth scenarios, and

¹⁶ See McGregor, R. and Kazmin, A. (2005); Merchant, K. (2005); McCartney, J (2006); Beeston, R (2006)

under high and low levels of inequality. In some Asian countries, including China, Indonesia and Vietnam, there are signs that income inequality is worsening (Figure 3). Inequality manifests itself in a number of ways, including growing geographic difference between regions. Given the importance of inequality in determining how given growth rates reduce poverty (Figure 2), several Asian countries are seeking ways of addressing these issues in their new national plans.

Figure 2: Dollar-a-day Poverty Head Count Index (%) for Asian Developing Countries in 2015, under varying growth and equality assumptions



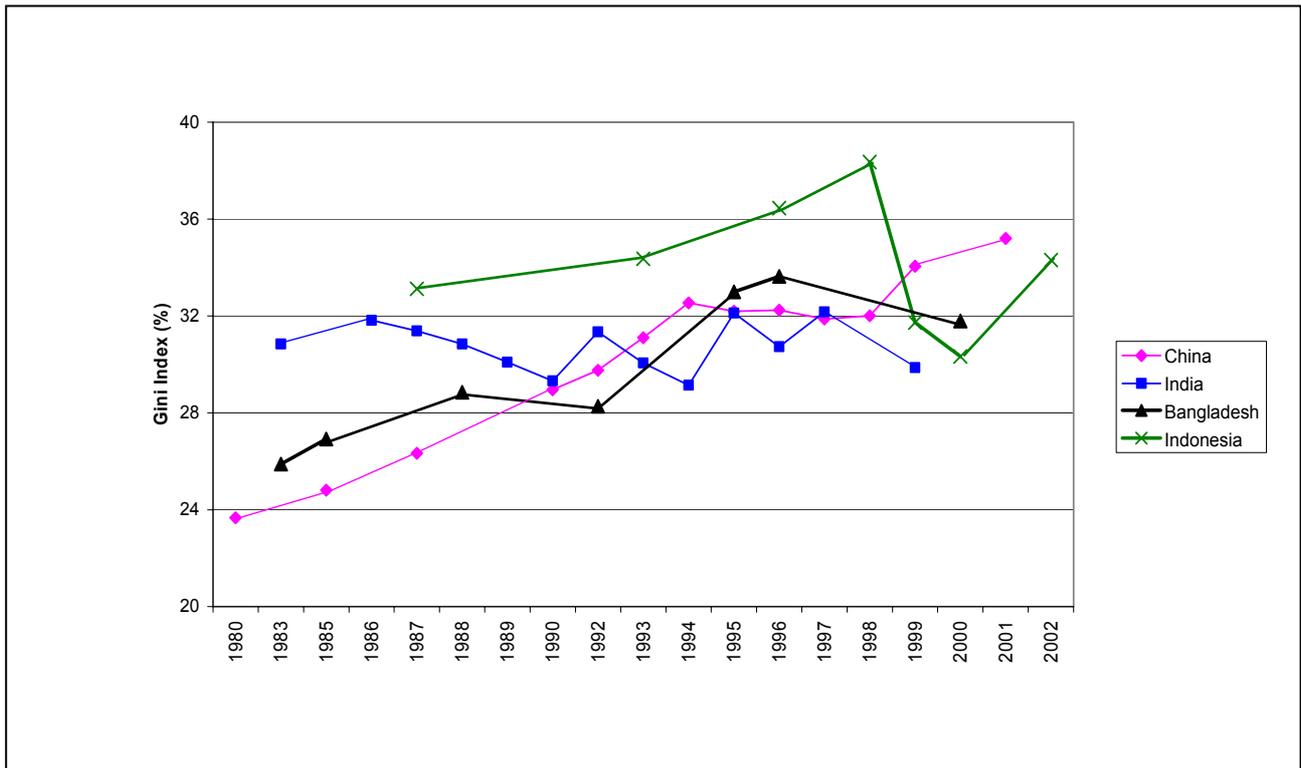
Notes: (a) Only one distribution is available.

The figures beneath the country names are population figures rounded to the nearest million in 2003

Source: Adapted from projections by the Asian Development Bank. 2004. *Key Indicators 2004. Poverty in Asia: Measurement, Estimates and Prospects* available at http://www.adb.org/Documents/Books/Key_Indicators/2004/default.asp

The ADB calculated growth and distribution from per capita income/expenditure of household survey data available in the PovcalNet database. The benchmark growth of survey means is calculated from annual average growth of per capita GDP for the period 1999-2003 (giving e.g. for East Asia a regional average of 5.4%) adjusted downward to reflect the empirical finding that a 1% increase in GDP per capita is associated with 0.8% increase in survey-based mean consumption per capita. Downward adjustment by 1 percentage point gives the low growth scenario. See the Key Indicators report p 38ff, for further details on this and on the assumptions underlying the two distribution estimates.

Figure 3: Income Inequality in Selected Asian Countries



Notes: The absence of a symbol on any line indicates missing data, and missing points are smoothed over by a straight line.

Source: Adapted from <http://iresearch.worldbank.org/PovcalNet/jsp/index.jsp>

3.2 Challenges

3.2.1 Environmental challenges

Rapid and intensive agricultural and industrial growth, together with urbanisation, has increased environmental problems across the region in recent decades. The problems include deforestation, land degradation, pressure on water supplies, industrial pollution, pollution from energy generation and the problems of rapidly-growing cities.

Many countries are unlikely to meet the MDG target of halving the proportion without improved access to drinking water or sanitation, or of reversing deforestation (Annex 1). By WHO norms, Asia suffers far more air pollution than any other region (Table 1) – China alone has nine of the world's ten most polluted cities, the other being in India; smoke from forest fires in Indonesia also affects Singapore and Malaysia.

Very little of the region's timber is managed sustainably, and illegal logging is rife. Groundwater exploitation for agriculture is reaching non-sustainable levels in parts of India (World Bank, 2003) – and parts of China and Mongolia are suffering from declining quality and quantity of water. Some effects of water acquisition have cross-border implications – this is particularly true for the Brahmaputra/Ganga, Indus and Mekong river basins.

The environmental effects of inappropriate pricing policies can be severe. For instance, the widespread reluctance of government to insist on realistic prices for farm electricity in India means that groundwater tables are being lowered as pumping for irrigation reaches unsustainable levels. More positively, a combination of regulation and price subsidy has led public transport to switch from diesel to liquefied gas in some Indian cities, with markedly positive effects on air quality.

Table 1: World Comparisons of Air Quality Indicators

Indicator	Sulphur dioxide ($\mu\text{g}/\text{m}^3$)	Nitrogen dioxide ($\mu\text{g}/\text{m}^3$)	Total suspended particles ($\mu\text{g}/\text{m}^3$)
<i>Reference:</i>			
WHO Guideline	50	40	60
<i>Region:</i>			
Africa	35	44	89
Europe	12	42	58
North America	13	39	21
Latin America	41	46	187
Asia	74	51	251
Oceania	4	18	43

Source: Baldasano et al, 2003

These issues are widely recognised by governments across the region. A paper prepared for the fifth Ministerial Conference on Environment and Development in Asia and the Pacific, held in Seoul in March 2005, highlighted the environmental challenges shown in Box 1. The same paper urged a shift from a 'grow first, clean up later' paradigm, to one of environmentally sustainable economic growth, which could be called 'Green Growth'.¹⁷

Box 1: Environmental challenges in Asia

- (a) Industrial production in the region increased by almost 40 per cent, against a global increase of 23 per cent, from 1995 to 2002; enforcement of pollution control is weak
- (b) Agricultural production increased by 62 per cent from 1990 to 2002, largely through increased agro-chemical use. Over 60 per cent of water used is for agriculture
- (c) Urban areas will grow by about 352 million new residents in the next 10 years; the provision of drinking water and waste disposal is lagging behind
- (d) The region's existing energy supplies are inadequate – the region has access to less than half the energy per capita of the global average; even modest increases will pose major environmental challenges;
- (f) Growth in water demand will also place significant pressure on the environment. Extraction is projected to increase by 25 per cent from 1990 to 2010.

Source: adapted from: UN ESCAP (2005b: 3-4).

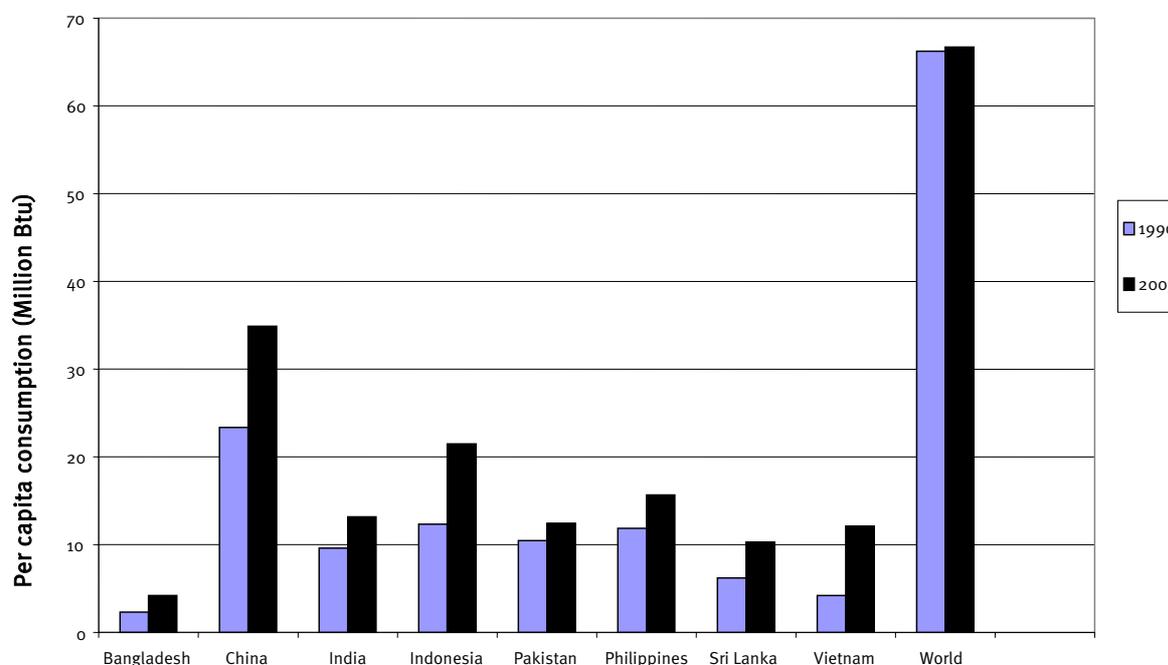
¹⁷ The 'Green Growth' strategy is summarised in UN ESCAP (2005a).

3.2.2 Energy challenges¹⁸

Per capita energy consumption in Asian countries is well under half the global per capita figure (Figure 4), but rising much more quickly: between 1990 and 2003, total energy consumption in the developing Asian economies rose by 70%, and their share of global energy consumption rose from 14.7% to 21.7%.¹⁹ China and India account for two thirds of all primary energy consumed in the region. China's consumption will double between 2002 and 2015, and India's will rise by 50%.²⁰ China is expected to import 74% of its requirements by 2030 (45% currently), and S Asia 95% (IEA, 2004). Rising energy demand creates particular problems in the electricity sector: potential demand in 2004 exceeded generating capacity by 10% in China and 7% in India. Blackouts and brownouts are already common at times of peak demand.

Failure to meet energy requirements acts as a brake on growth. The World Bank estimates that Bangladesh loses \$1bn each year in economic output due to unreliable energy supplies [EIA Bangladesh Report, 2005].

Figure 4: Average energy consumption, selected Asian economies and the World, 1990 and 2003



Source: <http://www.eia.doe.gov/emeu/international/energyconsumption.html> – consulted December 2005.

Note: These figures refer only to commercial energy consumption. Animal waste, wood and other biomass are not included in these figures, but account for approximately half of energy consumption in South Asia.

The region faces three types of energy-related challenges:

- A first challenge is to improve the efficiency of energy consumption, generation and distribution. On the distribution side, losses were 38% of total electricity availability in India in 2002-03 (TERI, 2004). Good practice in enhancing energy use efficiency is demonstrated by China (Sinton *et al.*, 1998), and there is scope for to remove inappropriate subsidies.²¹

¹⁸ This section draws on the paper by Jaswal (2006) commissioned for the conference

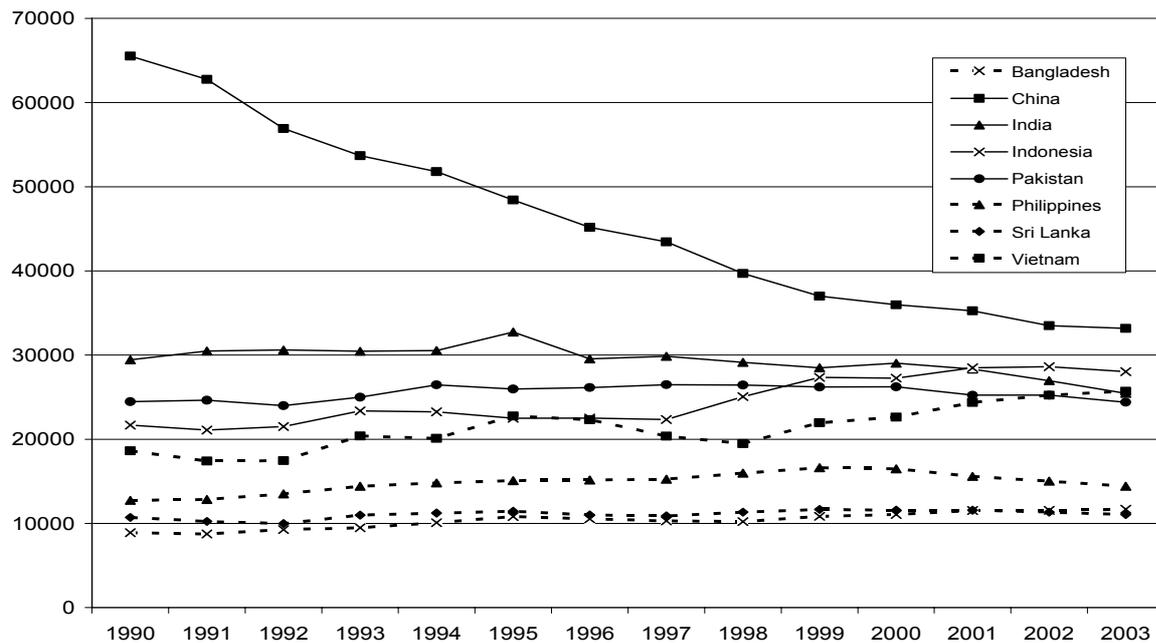
¹⁹ Source: US Government, Energy Information Administration
<http://www.eia.doe.gov/emeu/international/energyconsumption.html>, accessed December 2005.

²⁰ EIA country studies, <http://www.eia.doe.gov/oiaf/ieo/ieosector.html>

²¹ Asian Development Outlook 2005 Update (Asian Development Bank, 2005a) discusses this in detail.

- A second challenge is to invest in energy security by improving access to and movement of energy resources. There are substantial regional energy resources that remain poorly exploited (eg: natural gas in Bangladesh and hydroelectric power in Lao PDR, Bhutan and Nepal), as well as large reserves of oil and gas in contiguous regions (Russia, Central Asia, Iran, etc.).
- A third is to meet rising energy requirements without increasing environmental degradation. Investments in renewable energy (hydro, wind, solar, biogas) will make a minor contribution, as will increased efficiency in using conventional resources. The major requirement here is for new research.

Figure 5: Energy intensity (Btu per U.S. Dollar of Income)



Source: Energy Information Administration (see footnote 19).

Note: Calculated in 2002 US dollars, using market exchange rates.

3.2.3 Economic challenges²²

Growth has been largely export-driven in Asia. Multilateral negotiations will influence the scope for future growth in trade; poorer Asian countries will look for preferential access and easing of the rules of origin in order to enhance exports to European and North American markets. Further regional integration and improved efficiency of intra-Asian trade will be critical to maintaining Asian growth rates and there is an opportunity to scale up intra-Asian trade. Work at the ADB suggests that growth in trade and integration within Asia is likely to depend on country, regional and sub-regional efforts to liberalize trade (in a non-discriminatory way) and on measures that promote trade efficiency (including investments in infrastructure and needed policy and institutional facilitation).²³ There are already examples of how such trade could work – software designed in India, for instance, is being exported to China to drive electronic equipment being manufactured there, although total trade between the two countries, at \$14bn/yr, remains underdeveloped. Similar patterns exist throughout the region.

²¹ This section draws on the papers by Phillips (2006) and Griffith-Jones and Gottschalk (2006) commissioned for the conference

²³ See e.g. <http://www.adb.org/Documents/Periodicals/ADR/pdf/ADR-Vol22-2-Holst.pdf>

Certainly, the trade options of most countries in the region will be determined by the ‘footprint’ of China and India, given their success in export-oriented growth and the funds they have available for investment elsewhere.

A second macroeconomic challenge likely to face Asia in the coming decades is that of maintaining and increasing macroeconomic progress while avoiding financial instability. This is likely to require a strong government role in gradually and prudently sequencing reform that is deemed necessary by national authorities, regulating banks to avoid lending into non-productive, high risk sectors, managing exchange rates and in some cases, exchange rate regime transition, reducing budget deficits, investing in new infrastructure, and improving the investment climate – which, in e.g. S. Asia is seen by some as a brake on both domestic and (especially) foreign investment (World Bank, 2005).

A third challenge is to be found in the widespread S Asian phenomenon of ‘jobless growth’ in which growth driven mainly by high technology industries and services creates relatively few jobs (ADB 2005b). When combined with the large numbers of ‘near poor’ – such as the 75% of population living on under \$2 per day in India – and the bifurcation between small numbers of protected ‘formal sector’ jobs²⁴ on the one hand, and the increasing casualisation of employment on the other, this phenomenon is a cause for concern since the capacity of the economy to absorb un- or semi-skilled labour will be limited, and inequality might well widen. To address this will require action across several fronts: education, skills, labour mobility, market regulation and competition policy, and the investment climate more generally.

A further challenge is that some regions tend to be left behind (e.g. some of the western and central provinces of China, some of the eastern and north-eastern States of India), partly for reasons of distance from, and poor infrastructure linking to, the main hubs of growth, partly because of adverse agro-ecological, topographic and climatic conditions, and partly because of poor governance. Poverty here tends to have both spatial and social dimensions, insofar as these areas often also contain ethnic, religious or caste-based minorities against whom wider discrimination is practised. In these senses, the challenges are well-known but remain intractable. By contrast, rapidly growing regions generate other forms of poverty and exclusion: these areas are often urbanizing rapidly, having to integrate migrant populations, develop new infrastructure and services, and face new governance challenges.

For countries such as China and Vietnam, challenges of this kind are fundamentally different from past experience due to the speed of rural/urban transition, the constraints on policies and policy instruments accompanying the current phase of globalization, and the way the benefits and risks of deeper economic integration are distributed. For many other countries, they are a continuation, but perhaps intensification, of experience over some decades.

Further, there are many (the sick, elderly and those with many dependents) who cannot fully engage in economic activity. There are also many more who gain higher incomes e.g. by migrating from rural to urban areas as economic transition takes place, but, owing to their dislocation, suffer the loss of non-income benefits (e.g. in health and education). These conditions raise questions of how services and social protection might best be provided to these groups, and there is growing awareness that money spent on social protection can have highly productive effects as some is transmitted onwards directly to productive activity, or invested for the longer term, e.g. in the education of children and grandchildren. A related concern in several Asian countries is over rising inequality and the kinds of social unrest and political instability to which it can contribute. Against this background, optimising the potential of growth to reduce poverty involves a delicate balancing act: to support direct engagement of the poor in growth processes where possible, to enhance the provision of and access to services such as health and education for all, and, for those unable to engage fully in the productive economy, to provide social protection. Enhanced efficiency in directing the benefits of growth towards service

²⁴ A recent review (The Economist October 29th 2005) argues that a slow pace of reform will discourage small/medium enterprises from growing, and limit job creation.

provision and social protection will help to strengthen poverty impacts at the same time as minimising disincentive effects in the productive sectors.

*3.2.4 Governance challenges*²⁵

Improvements in governance²⁶ have been evident in some countries, but there remain a number of governance challenges facing Asia, prominent among these being the diversion of public resources for private ends. Much remains to be done to improve transparency and accountability in the formulation of public policy, in public-private relations, and in corresponding resource allocations.

In terms of the structures of government, there has been notable progress on decentralisation and innovations in service delivery. The decentralisation of both elected representation and of the public administration have recently been promoted in many Asian countries, but with mixed success. Local elections in countries such as China, India, Indonesia and Pakistan, have widened the scope for citizens to influence decision making, and increase resource allocations. Women have gained significant representation through affirmative action in local councils in these countries. One shortcoming has been the continued reliance by local governments on the centre for almost all budgetary provision. To encourage local governments to take on the responsibility for revenue-raising in ways which do not cause major economic disincentive, and that of disbursement in ways designed to minimise the capture of benefits by elites, remains a major challenge. Increasing the responsibilities of local officials and elected representatives has raised questions in some contexts over the scope for elite capture and increased corruption, and almost everywhere over increased costs. Further, how far enhanced local representation translates into improved development outcomes has yet to be determined but there is some evidence of better targeted development spending on drinking water, fuel, and road construction in the Indian state of West Bengal.

Second, the capacity of governments to tax their population is an important indicator of the legitimacy and effectiveness of state institutions. Total revenue as a share of GDP has remained fairly static in most countries over the past decade, averaging 18.3% across 11 countries in 2003. Only three countries have total revenues exceeding 20% of GDP. The relatively low revenue/GDP ratio is a key challenge facing many Asian economies which need to raise resources for investing in infrastructure and improving social services.

Third, improved governance in the corporate sector remains challenging, especially where social and environmental impacts are concerned. Governments in turn are faced with the challenge of creating a more receptive environment for business, in respect of e.g. transparent laws and their improved implementation, and reductions of state pressure on decision-taking in crucial sectors such as banking.

Fourth, governance reform will be crucial in making markets work for the poor in the poorest regions and among the poorest people, as well as for improving the effectiveness of services and transfers made to these. This means improving the performance of public institutions at all levels and especially taking action to improve accountability and to avoid diversion of public resources. The growing demand from Asian populations for access to quality services and for action on poverty will also mean a greater willingness to tackle social exclusion.

²⁵ This section draws on the paper by Rahman and Robinson (2006) commissioned for the conference.

²⁶ Governance has a wide variety of meanings, ranging from a narrow concern with the manner in which the state acquires the authority to manage public goods and services, through to the accountable, transparent, and legitimate use of state power. Other definitions emphasise the importance of participation in decision making processes as an integral aspect of governance. From the perspective of this conference, the extent to which the state creates an institutional environment that maximizes the opportunities for growth and poverty reduction is the most critical dimension of governance.

3.2.5 *Social challenges*²⁷

Health and education are important both as individual rights and as qualities enhancing ‘employability’ in an increasingly globalised world. The main challenges are those of improving finance, quality and access in relation to basic health and education services. These challenges have to be viewed within a context of trends towards decentralization, pluralization and participation, and, less positively, towards the casualisation of employment and, for countries such as China and Vietnam, massive downsizing of the state sector and of its concomitant social provisions. Public expenditure constraints are most severe in poorer countries, where development support is likely to be needed for some time, but the proportion of spend varies widely – for instance, on primary education, from 12.5% of public expenditure in Thailand to only 3.2% in Cambodia (World Bank, 2004). Other financial concerns include the inappropriate setting of user charges, especially in health, so that the poor are excluded, and the absence of risk-spreading mechanisms such as social insurance. Access depends on distance, affordability and patterns of social exclusion, so that the poorer, and women in particular, often benefit least (ESCAP, 2005). Efforts to improve the quality of services face constraints of poor maintenance, absenteeism,²⁸ inability of the poor to judge service quality and so to demand their rights, and inability to sustain appropriate balances of infrastructure, staffing and materials.

Progress on those MDGs centred on social development is slow and uneven, and many are unlikely to be met (Annex 1). On the promotion of gender equality, for example (Goal 3) there has been some increase female enrolment in primary education, though dropout rates remain high, and the share of women in wage employment in the non-agricultural sector rose for all countries.²⁹ But for many countries within the region these gains have been not converted into equal opportunities and outcomes. On Goal 4, almost all countries saw some reduction in infant mortality but overall progress is slow. Most countries will fail to meet the target of reducing the under-five mortality rate by two-thirds between 1990 and 2015.

Similarly, progress on Goal 5, reduction of maternal mortality, has been uneven, with some countries apparently regressing. The same applies to the percentage of births attended by skilled health personnel. Progress on reducing the disease burden in the region (Goal 6) has been mixed. Control strategies for tuberculosis (TB) are being implemented and the rates of TB detection have been increasing rapidly. Overall HIV prevalence rates in the region are low in most countries, but these translate into high absolute numbers, and effective prevention programmes are needed to stop further spread from high risk groups. New threats are posed by SARS³⁰ and avian flu. The rapid international spread of avian flu has recently caught the headlines, but many communicable diseases have a less publicised though still important regional dimension where borders are porous, as also does trafficking in drugs and prostitution. Apart from the direct (and sometimes disproportionate) effects of the shortcomings in preventative and curative health on women, they will undoubtedly increase women’s workload in caring for members of the household.

Selective though they are, these data point to three generic challenges:

- One is that, despite some progress, there remains deep-seated discrimination against certain groups on grounds of e.g. caste, religion, ethnicity and gender. A consequence is that, behind the averages, almost all indicators – and especially those such as child and maternal mortality – are higher for disadvantaged groups.
- A second is that excluded or ‘near poor’ populations face not only opportunities but also new kinds of insecurities arising from rural-urban transition. These include rapid urbanisation and migration (and associated problems with housing, infrastructure, loss of traditional safety nets

²⁷ This section draws on papers by Cook (2006), Deshingkar (2006), Hussain et al (2006) Kabeer (2006), Jack (2006), and Joshi (2006) commissioned for the conference.

²⁸ One study of primary health workers in Bangladesh found an absentee rate of 74% (Chowdhury and Hammer, 2003)

²⁹ Goal 3, Target 4, indicator 11.

³⁰ Severe Acute Respiratory Syndrome

etc). Several Asian countries envisage that their current (approximate) 60:40 ratio of rural to urban population will be reversed over the next two decades. This implies massive internal migration. In China, some 140 million workers moved from rural to urban areas over the last 15 years, representing some 25% of the total workforce. Migration has faced widely varying policy response across countries in the region, and questions of why and how to provide more positive support for migration (in e.g. accommodation, job information, re-skilling, making remittances, services and social protection for migrants and their families) provides an important opportunity for cross-learning.

- A third is that transition has coincided with static or retreating state intervention in welfare fields, notably in the former socialist countries, but also in those where state institutions or functions were reduced in an era of market led growth (e.g. through IMF stabilisation programs) often leaving fewer tools and resources in the hands of government to address these risks. Even where the provision of welfare remains high (e.g. India), much of the benefit is siphoned off before it reaches the poor with some types of provision (such as subsidised housing) and remains locked in costly delivery methods in others (such as subsidised food distribution) (Nayak et al, 2002).

In summary, growth and structural change bring both benefits and challenges; some of the difficulties are related to longstanding ones, others quite different. Even if the more pressing problems of social exclusion could be addressed, unequal social structures have a long legacy in many countries, not just in Asia. Even with progressive legislation, they are difficult to redress.

4 Policies and Priorities up to and beyond 2015

If Asia is to achieve sustained growth over the next ten years and to make even more rapid progress in poverty reduction there are several areas where new policies and approaches and new initiatives can be taken. Primary objectives would be (a) to achieve continued private sector growth with more rapid employment creation and with less environmental impact, and (b) improved performance in public sector institutions, with innovative approaches to improve quality and access to services. Six sets of issues and policy/partnership options are proposed below, corresponding with the six topics programmed for the *Asia 2015* Conference.

4.1 Making the best use of resources and energy, and the environmental impact of rapid growth³¹

On energy: in most countries in the region, energy demand already outstrips domestic resource availability.

In the next 5-10 years, most attention is likely to be given to securing supplies of non-renewable energy. This will involve:

- Investing in infrastructure to exploit as yet underutilised energy resources from within the region, including natural gas and hydro-electricity;
- Investments in the infrastructure for importing energy resources, particularly from within the region.
- Establishing long-term arrangements with energy supplying countries to ensure continuity of supply.

Increasing efficiencies is another area for action. A range of measures can be considered, including: (i) a review of subsidies to curb excessive energy consumption in some sectors; (ii) increased management know-how of energy distributing and supply agencies; (iii) greater accountability and transparency of government agencies responsible for energy, and improved competition policy to allow strong but fair private sector engagement; (iv) investments in improved generating, distributing and consumption technology

In the longer-term, strategies will be required to find alternative sources of energy, and this challenge is not specific to Asia. The larger Asian economies are now directly competing with Western economies for energy resources, and there are signs that the global energy market is becoming stretched. Managing the global supply and demand for energy will require the active participation of Asian countries, as will research into new or improved energy supply. Without such active involvement, Asian economies will find themselves purchasers of (potentially unsuitable) new technologies developed elsewhere. Given the rapidly growing size of the region's consumption of fossil fuels, Asia's participation in post-Kyoto climate change negotiations will also become increasingly important.

On environment and natural resources:

Existing good practice and new policy options can be grouped under three headings:

- (i) *changes in the institutions and governance of natural resource management:* here, major tasks are to remove incentives that promote environmental degradation, such as subsidies for unsustainable use of land, water and forests; to create enabling conditions to ensure that resource extraction does not harm neighbouring communities, to strengthen regulations

³¹ This section draws on papers by Bass and Steele (2006) and by Jaswal (2006) commissioned for the conference

governing pollution and their enforcement, and, perhaps most important, to improve within-country inter-ministerial co-ordination on environmental policy and its implementation.

- (ii) *increased investment for environmentally sound development*: there is ample evidence of the high returns available to investment by the private sector,³² suggesting this as a future policy priority. But there is also a role for the State, in driving knowledge and innovation for environmental best practice throughout the economy. The role of the Chinese government in promoting energy efficiency in China is one example (Sinton, Levine and Qingyi, 1998).
- (iii) there is scope for expanded *partnerships for sustainable growth*, both among countries within the region and with industrialised countries and international bodies. These are detailed in section V.

Overall, a balance will be needed between a positive approach that emphasises natural resources as assets for growth, particularly for the poor, while at the same time minimizing potential threats from both misuse of environmental assets and increasing environmental hazards. For many of the slower-growing countries (and regions within larger countries) the majority of rural poor will continue to rely on agriculture (broadly defined) for a significant part of their income, and there remains major scope for improving the productivity and sustainable exploitation of the natural resources this sector relies on. Specific niches may exist in specific countries or regions – e.g. fish, food and non-food crop production, timber and non-timber forest products in Vietnam and large parts of Eastern Indonesia; hydro power in Nepal, Bhutan and Lao PDR; nature tourism in Sri Lanka.

Linking the use of these resources in a sustainable manner to demand from fast-growing countries in the region (or centres within larger countries) will enable the benefits of rapid growth to be spread more across the region. A major challenge will be to move away from high-input/low-efficiency/high-waste approaches, and to maximize efficient and sustainable use of resources.

A particular concern is to minimize the impact of resource (forests, fisheries) licensing mechanisms on the livelihoods of local communities. Involving local communities in managing natural resources directly (e.g. forests, coral reefs and fisheries) has been shown to be an effective way of tackling environmental issues in some areas.

Good governance is key to realising benefits from environmental assets:

- In some poorer countries revenues earned from exploiting environmental resources have been captured by elites, and not been re-invested in other productive sectors of the economy, which has resulted in ‘boom and bust’ cycles in resource based economies. Effective licensing and taxation systems can address such problems.
- In some cases, environmentally damaging subsidies need to be reviewed so that prices reflect the true scarcity of environmental assets. This is particularly true for energy, water and timber production. For the longer term, research into alternative forms of energy offers potential to reduce environmental impacts.
- Almost everywhere, user rights to common pool resources remain weak, which poses particular threats to the livelihoods of the poor, and acts as a disincentive for local communities to act as custodians of state assets.
- Similarly, environmental regulations and their implementation merit strengthening in order to promote investment in environmental management and place limits on potentially damaging activities, such as excessive drawdown of resources (e.g. timber, groundwater resources and fish) and pollution (including greenhouse gases).

³² In Thailand more than 600 firms participating in an eco-efficiency investment programme achieved an aggregate 47% rate of return. The 2005 Asian Environmental Outlook (Asian Development Bank, 2005) is devoted to this issue.

- Improvements in accountability and transparency have been shown in some areas to have a significant impact on local community trust in and respect of government licensing, regulation and taxation systems.
- There is a role for government and policy directives on disaster management and risk reduction, including in the field of cross-regional and wider health risks such as SARS and Avian 'flu. The early identification of potential threats from global warming and the design of adaptation plans will go a long way to dispel fears of adverse effects, and could save millions of lives, and expensive infrastructure investments that are at risk from flooding, sea level rise or extreme rainfall events.

Investment needs are significant, and the paper on the environment commissioned for this conference (Bass and Steele, 2006) highlights some of the returns that can be expected from investments in environmental health and soil conservation. There is an increasing role for private investments, especially in water supply, but governments have a crucial role in defining and managing the regulatory frameworks within which the private sector operates. Substantial finance is available from international environmental concerns, both official and non government, and there is a growing set of tools available under the heading of 'environmental finance' to guide governments, private sector and civil society.

4.2 Sustaining the private sector³³

Strengthening financial regulation in order to prevent a recurrence of the 1997 crisis: The Asian financial crisis in 1997 had negative effects on levels of poverty in the region and long-lasting effects on investment. Asia can address financial issues so as to reduce the chances of a future regional financial crisis. The region has important sources of strength:

- Very high levels of foreign exchange reserves, to an important extent linked to need for 'self-insurance' to avoid future crises, although there are costs of holding such reserves.
- Rapid growth in major economies, as well as dynamism of exports.

Nevertheless, certain potential fragilities need to be addressed. In particular:

- Vulnerabilities in the banking sector, especially in the case of China, where there has been rapid growth of loans and, above all, high levels of non-performing loans. Measures taken to reduce such risks, e.g. restrictions of growth of credit in China and recapitalization of banks.
- Possible problematic transition effects of liberalising capital accounts.
- Financial instability caused by the slowing down of growth of exports and the economy.
- New challenges and opportunities posed by the Basle 2 Capital Accord and by the opening of the Chinese banking sector under WTO.

Asian financial and monetary cooperation has increased substantially since the financial crisis of 1997/8 (Rana 2002). Efforts to coordinate financial and monetary policy have taken two forms: increased exchange of information and collaborative surveillance (as included in the Manila Framework Group and the ASEAN Surveillance Process) and methods of providing regional financial resources. The first has achieved only moderate success, whereas more progress has been made on the second. Attempts to create a fund for regional liquidity began with a Japanese proposal for an 'Asian Monetary Fund' in the wake of the crisis (a proposal opposed by the US, EU and IMF), and has evolved via the Chiang Mai Initiative (CMI) to two different regional facilities for providing liquidity.

The first is the ASEAN Swap Arrangement (ASA) and the second is the Bilateral Swap Arrangements (BSA). The ASA provides for swaps for the ten ASEAN countries on an equal partnership basis (complicating its use in practice), whereas the BSA is a bilateral arrangement amongst ASEAN + 3

³³ This section draws on papers by Phillips (2006) and by Griffith-Jones and Gottschalk (2006) for the conference

countries that is undertaken in coordination with the IMF (including IMF conditions) for all swaps greater than 10% of quota. Given the small amount of BSAs available to Asian countries (US\$35bn as of 2004) and the widely differing amounts each country can draw on, the CMI is at present no more than a complementary source of financing to the IMF.

There are several barriers to further regional monetary and financial cooperation. Several authors have argued that there is little common vision for what the ultimate purpose of the CMI is, together with a lack of supporting institutional arrangements to facilitate Asian financial cooperation, and potentially, a lack of clear political leadership (Eichengreen & Bayoumi 1999; Park & Wang 2005).

Improved regulation and institutional reform: This includes development of the legal, financial and institutional framework within which the private sector operates. Enhancing regulatory capability requires new legislation and institutions which take time to establish. Improvements in such major sectors as power and transport is vital, but can pose difficult policy choices if this requires restructuring of state enterprises or adjustment of subsidy regimes. However there is growing body of experience in the region from which to draw.

Employment creation and improving the functioning of labour markets: Some Asian countries have been successful in creating the conditions where the private sector can be competitive whilst also generating increased employment to reduce poverty and promote political and social stability. Experience suggests this requires a difficult combination of effective state regulation of labour markets, the protection of rights, the improvement of working conditions, and the flexibility for employers to recruit and manage their workforces in line with changing business needs. Labour regulations in the formal sectors of some countries are a major barrier to productivity and investment, but at the same time, increased casualisation increases the uncertainties that workers face.

Other improvements in the investment climate: While both improved regulation and reform of labour laws are components of the investment climate, there are other aspects to improving the incentives for productive investment for both domestic and foreign firms at all levels which may help to underpin strong growth in countries where economic performance has been robust, and improve growth trajectories in slower growth countries or lagging regions. Microdata has shown that there are significant barriers to ‘doing business’ in Asia (World Bank, 2005), which includes the complexity of regulations for establishing businesses, weak competition policy, as well as problems with limited financial intermediation. These constraints are particularly high in South Asia (Rahman, 2005; Stone, 2005), but vary widely not only by country, but also at the regional or city level. Improvement in such conditions can have strong impact on growth (Dollar, Hallward-Driemeier, & Mengistae, 2003; McLeish & Martin, 2005; Palmade, 2005), and therefore while a centralised investment climate policy should be central to growth strategies, specific interventions may be necessary to motivate growth in sectors or regions of interest. For example, small and medium enterprises, including farming, are often disproportionately burdened by regulation and administrative inefficiency, as well as by insecure access to assets such as land.

There are opportunities for new partnerships to facilitate improvements in the business climate. While development and aid agencies have already contributed by making high quality analytical information available about the micro constraints in many Asian countries (see the ‘Investment Climate’ and ‘Doing Business’ surveys), prioritisation of investment climate reforms requires stronger cooperation both between amongst international agencies and national governments, and utilising regional knowledge accumulated by Asian countries, who can provide good examples of what has worked in their own countries. These partnerships can things such as technology sharing – for example, looking at how software has been used in Singapore to facilitate the application and approval of business licenses or tax administration.

4.3 Closing the infrastructure gap³⁴

Infrastructure investment and policy related to regulation and finance play a crucial role in relation to poverty reduction both through boosting growth and sharing the benefits of growth. Infrastructure investment brings broad benefits in terms of the MDGs – not just income growth. There is evidence of strong complementarities between appropriate infrastructure investments and measures to boost human capital (particularly education), and, as an ADB-UNDP-UNESCAP-WHO joint paper demonstrates, investments in water bring about significant benefits in health.³⁵ But, as noted below, infrastructure provision is not a panacea for the more remote rural areas whose goods, even with the best infrastructure, are unlikely to be able to compete in distant urban markets, and where urban jobs may be attracting large numbers of workers. Some balance between investing in infrastructure investment and facilitating migration would have to be struck.

The main challenges for infrastructure policy include:

- developing the key national and regional networks (transport, energy, ICT in particular) to create growth
- responding to the challenge of rapid urbanisation
- integrating lagging and remote regions through both national and regional infrastructure investment
- getting the balance right between public and private investment, which may involve difficult 'privatisation' of public enterprise

The overall requirements for infrastructure investment are large. Savings within E Asia, if properly mobilised, would be adequate to meet this requirement, but are well below requirements in S Asia. Appropriate investment in infrastructure can impact also on the non-income MDGs:

- Outside China, there has been limited mobilisation of private finance for infrastructure. This is as much, or more, about domestic investment and financial systems as about FDI
- Resources for infrastructure have to be utilised effectively, and there is scope for improvement in:
 - effective procurement
 - regulation of performance
 - tariff structures and returns on investment
- The mobilisation of private capital will free up resources for hard-to-finance investments that have a big impact on poverty. In particular:
 - rural transport infrastructure, which is important for access to markets
 - water and sanitation, particularly in urban areas
- Investments are also needed for regional (cross-border infrastructure). One of the explanations for rapid growth in Asia is its increasing regional focus. ADB's Greater Mekong Sub-region initiative demonstrates the benefits of cross-border infrastructure building. Similar initiatives such as the South Asia Sub-regional Economic Cooperation or the Central and South Asia Trade and Transport Forum intend to generate similar benefits elsewhere

³⁴ This section draws on a paper by Jones (2006) commissioned for the conference

³⁵ Further evidence on the returns from different kinds of infrastructure investment is provided in ADB's *Financing the City* paper presented at the 2005 ADB Annual Meeting in Istanbul.

4.4 Regional disparities, poverty and exclusion³⁶

Structural transformation is changing the spatial distribution of growth and poverty: wealth is accumulating rapidly in urban agglomerations, but these are also the new foci of poverty and deprivation, whilst poverty persists in 'lagging' regions by-passed by growth. Both these 'extremes' demand attention from policy makers, as do the mechanisms through which population, wealth and the benefits of growth are distributed and move between them – particularly through the migration process. Rapidly growing regions generate opportunities and growth, but bring new challenges of governance, service provision, integration of different populations (through migration) and urban planning. The speed of urbanisation in Asia, and the new types and patterns of poverty and exclusion to which this gives rise, need to be met in ways very different from many 'traditional' poverty reduction efforts. These spatial transformations affect individuals, households and communities, reinforcing old patterns and forms of poverty, disadvantage and social exclusion, and giving rise to new ones.

Severe or chronic poverty in Asia remains predominantly rural (in terms of absolute numbers) with the rural poor often located in remote, ecologically disadvantaged regions with 'fragile' environments: poverty in such areas is often attributable to discrimination on grounds of ethnicity, race, religion, caste, and gender, and will not be eradicated by growth alone.

New kinds of insecurities arising from the trends discussed above have coincided with a period during which state intervention in welfare fields has been in retreat, especially in former socialist states, leaving fewer tools and resources in the hands of government to address these challenges.

Packages of policies and interventions can usefully address both the spatial dimensions of poverty, and the protection and promotion of different groups. These could include:

- Regional and spatially-specific policies, especially with regard to e.g. infrastructure development
- Facilitating the growth and proliferation of economic activity (essentially reducing the transaction costs of setting up businesses and conducting trade)
- Official designation of special commercial or industrial areas, with appropriate incentives designed to capture economies of scale and agglomeration
- Human resource enhancement, including education and healthcare
- Poverty reduction and social protection policies, with different degrees and types of targeting and conditionality (as the Latin American experience suggests – de Janvry et al, 2005; Barrientos and de Jong, 2004)
- Continued research and interventions to enhance productivity in agriculture and related industries
- Labour market policies, employment creation and assistance for migration
- Scaling up of civil society activities and pilot interventions

To design and implement new interventions in these spheres, or to scale up existing ones, is faced with inherent uncertainties. It also involves trade-offs: the best regional policies may not fully target the poor in the region. Past experience offers a number of lessons:

- An important lesson in the aftermath of the Asian crisis was that governments can use opportunities and resources generated during periods of growth to put in place the institutional arrangements, social investments and safety nets that protect the vulnerable at moments of crisis

³⁶ This section draws on papers by Cook (2006), Deshingkar (2006), Hussain et al (2006) Kabeer (2006), Jack (2006), and Joshi (2006) commissioned for the conference

- A social exclusion analysis of poverty illustrates why conventional poverty reduction methods may fail to benefit some groups, and suggest the importance of:
 - a focus on advocacy, institutional and in some cases legal/constitutional changes (focusing on e.g. the protection of rights and against discrimination)
 - in countries where this has not already been done, strengthening the ‘voice’ and political representation of such groups and their representatives in *mainstream* political processes as well as local decision making is important, but not a panacea
- Institutional and governance changes accompanying rapid growth and structural change have significant implications for the policy options available, for how policies can be implemented, their effectiveness and impact, as well as for how development agencies can engage with these processes
- These changes also mean that a greater diversity of actors and coalitions need to be engaged in innovative interventions to combat poverty and exclusion. Several countries in Asia have led the way in fostering civil society organisations that now play a crucial role in growth, development and poverty reduction, and whose activities have been successfully scaled up

The orthodox solution to areas of slow growth within countries has been to press for higher investment, especially in physical infrastructure. But infrastructure is not a panacea and this strategy is being called into question because of the high costs involved and the fact that agricultural products often remain uncompetitive due to the distance to major consumption centres. Whilst even remote rural populations may require a basic minimum of infrastructure, to build and maintain costly infrastructure will only be economically worthwhile where a particular set of assets (be they in agriculture, natural resources, tourism potential...) are specific to certain areas. The alternative will be a combination of strategies that might involve installing a minimum of infrastructure but, in contexts where urban jobs are available, also supporting out-migration through re-skilling, job search, transport, hostel accommodation, education for the children of migrants, and efficient mechanisms for making remittances. Marginalised groups are often numerous in such regions, making it essential for policies to have explicit social inclusion dimensions

Policies on population and migration vary widely: the continuation of China’s one-child policy means that its population will increase to around 1.4 billion by 2040 against 1.6 billion in India.³⁷ On the other hand, this means that the burden placed on those economically active by China’s ageing population will be relatively higher. The Chinese experience suggests that without policies to support, or at least permit, rural-urban migration, urban construction and manufacturing can be severely constrained, and to date some 140 million workers – around 25% of the workforce – have moved from rural to urban areas, although all require residence permits, few have full educational and health benefits, and many face abuse, non-payment of wages etc. India, by contrast, has a wide range of policies seeking to keep workers in the countryside. Women and marginalised groups are often among the most vulnerable and neglected in highly fluid situations such as these, making it essential for policies to have specific social inclusion dimensions.

4.5 Targets, voice and choice – effective service delivery for human development³⁸

Service delivery

Basic services are being improved in many countries with increasing levels of enrolment in primary education and efforts to enhance health services especially for maternal and child health. Innovative

³⁷ Alternative estimates based on a more relaxed Chinese policy place the two countries on level footing by 2040.

³⁸ This section draws on a paper by Joshi (2006) commissioned for the conference

ideas such as vouchers for maternal health services and educational stipends for girls in India and Bangladesh show what can be done to improve access.

Governments are the ultimate guarantors of provision of services and poverty-focused measures, whether privately or publicly delivered – and Asian countries will need to allocate more resources, and develop new ideas and (in the face of well-known rent-seeking practices – Nayak et al, 2002) robust implementation mechanisms if improved services are to be achieved. Achieving improved quality will require a sea change in public sector provision involving setting and monitoring of performance standards, new incentive frameworks and enhancing accountability to service recipients. A degree of competition with private providers and contracting of services has successfully raised quality and standards in some Asian countries.

There are several examples of ways in which consumers have been empowered and their *demands* on service-providers enhanced. A Bangladesh NGO, BRAC, has initiated a livelihoods approach centred on the transfer of assets to ultra poor women that along with improved knowledge and the provision of ‘priority’ treatment cards has improved the utilisation of government health services (Matin 2004). Similarly under a Bangladesh government programme, the provision of stipends for girl scholars has improved their enrolment in schooling, and reduced drop out rates (see Box 2). Demand led approaches can also offset the exclusionary impacts of user-charges as is evident from the experience of health equity funds in Cambodia (Hardeman et al 2005).

Box 2: Stipends for girl scholars in Bangladesh

A government initiative to increase the enrolment, achievement and achievement of girls in secondary schools started in the mid-1990s has succeeded in achieving gender parity in enrolment. Under the initiative, the government pays a grant stipend to parents of girls and to schools where they are enrolled. The stipend is conditional based on attendance, achievement and delayed marriage. It is clear that the scaling-up of the programme has been possible due to sustained political will. There are clear and performance-based incentives for all stakeholders—the government, the schools, parents and the girls. An assessment of the programme found that while able to increase enrolment, due to low achievement levels, it can exclude girls from poorer families after the first year. To combat such a decline, continuous monitoring and review using disaggregated data is required. In particular there is a need to look beyond simple access to schooling to creating an environment that meets the needs of all girls. With modifications it offers an interesting approach to target specific groups and increase access.

(GHK, 2005)

The provision of incentives for target groups to attend schools has been another approach to improve access and tackle exclusion. A successful example of this approach is government provision of targeted performance based school funding which provides incentives for school management committees and communities to increase enrolment of *dalit* (lower caste) children and girls in schools in Nepal (GHK 2005).

Strengthening the *supply side* of government services remains a key strategy for improvements in access and quality for many countries. The extension of facilities (schools, primary health care centres) is still essential particularly to address issues of exclusion of such services for those groups who cannot afford private providers, or who do not prioritize the treatment or education of women and for extension of preventative health care. It is well established that proximity of services to the poorest quintile has a significant impact on their utilization of services. In Bangladesh for example, the presence of a health centre in close proximity to a village is associated with the reduction of underweight children in that village with a disproportionate positive effect on the poorest quintile (World Bank 2004).

Another approach, particularly to problems of staffing and absenteeism has been to create a cadre of para-professionals to deal with the problems of the shortage of qualified staff and their willingness to serve in remote locations. Para professionals consisting of locally hired and trained personnel cost

less and are less prone to absenteeism. Using para-professionals also enables governments to tackle the problem of access at a larger scale as in e.g. the Lady Health Worker Programme (LHWP) in Pakistan which hired and trained local women for extending family planning services to the doorstep of rural women (Douthwaite et al 2005). Yet, while the use of local female workers is found to improve access and quality of services for women, such workers are also difficult to recruit, train and retain for a variety of reasons as was seen in Pakistan (Mumtaz, 2003). The experience with such initiatives also suggests that the biggest challenge to the use of such para-professionals is opposition from teacher and health worker unions and that strong political commitment is needed for success. Further, issues of ensuring quality of service remain a challenge and this approach needs to be coupled with periodic training and monitoring of such staff.

Yet another approach to improving the quality of public services has been the introduction of user fees in health. Government budgets are often insufficient to permit hospitals to pay adequate salaries and purchase necessary drugs and equipment. User charges help supplement resources and are also an effort to reduce the incidence of informal payments and replace them with transparent pricing. The charging of user fees is also expected to improve accountability by leading users to demand better services. Targeted subsidies need to be carefully included in the programme to prevent exclusion of the poorest. Thailand's 30 baht health scheme is an innovative attempt at providing universal care at reduced costs, and making it affordable for the poor through subsidies (see Box 3).

Box 3: Thailand's 30 baht health scheme

Under Thailand universal health scheme introduced in 2001, users pay just 30 baht per visit, and the poor are treated free of charge. There was a parallel shift in funding from large hospitals to primary health care centres with a strengthening of the referral system. Included within the scheme are treatment at the primary care facility, referral to a secondary facility if necessary, health promotion and preventative services as well as ambulance costs and prescription drugs. The scheme has achieved remarkable coverage in a short period of time—by 2004 approximately 47 million people were treated under the scheme. Together with other schemes, about nine-nine per cent of the Thai population is estimated to have health cover. Financing of the scheme is the main challenge as the demand for services has outstripped the budgets of the facilities.

(Towse et al 2004)

Working in *partnership* with the variety of providers can enable governments to reap the benefits of the private sector—increasing the efficiency of resource use, leveraging private sector funds, improving the motivation of front-line staff and targeting particular groups. Examples are provided in section 5.³⁹

*Social protection*⁴⁰

Some aspects of the services described above – such as primary health care – are ‘socially protecting’ in a broad definition. Social protection in the narrower senses of assistance, insurance or standards received widely varying budget allocations, India being among the highest in the region with some 12% of public expenditure (Farrington et al, 2003). Old forms of social protection are disappearing in some countries – the demise of public enterprise can no longer guarantee to employees an ‘iron rice bowl’ in China or Vietnam. In other contexts, such as India, there is an intention to move away from costly and

³⁹ See also the paper prepared for this conference by Joshi (2006) for further examples

⁴⁰ Social protection comprises elements of: social insurance which involves individuals pooling resources by paying contributions to the state or a private provider so that, if they suffer a ‘shock’ or permanent change in their circumstances, they are able to receive financial support (eg. unemployment insurance, contributory pensions and health insurance). Social insurance is, in general, only appropriate for better-off individuals although it can have an important role in preventing them from dropping into poverty. Social assistance involves non-contributory transfers to those deemed eligible by society on the basis of their vulnerability or poverty. Examples include social transfers but also initiatives such as fee waivers for education and health and school feeding. Standards: setting and enforcing minimum standards to protect citizens within the workplace, although this is difficult to achieve within the informal economy.

inefficient transfer of subsidised food to the poor,⁴¹ and towards schemes for employment guarantee and for targeted and conditional cash transfer on the Latin American model (cf Barrientos and de Jong, 2004 and de Janvry et al, 2005).⁴² Some have indicated the potential for poverty reduction through expansion of such provisions as old age national pension schemes, and widows' pensions (e.g. Farrington et al, 2003).

Perhaps the major problems hampering any expansion of social protection are twofold: one is the reluctance of governments (and perhaps more so of development agencies) to become engaged in long-term and potentially unaffordable commitments. The other is a perception that allocations to social protection are entirely non-productive, which is being only slowly eroded as evidence accumulates of the productive uses to which some transfers are put, either directly (Johnstone, 2004; Devereux, 2002), or as long-term investment in human capital (Barrientos and de Jong, 2004; de Janvry et al 2005), or as a way of preventing outflow of capital from the productive sectors in order to meet household shocks and stresses (Farrington, 2005a). Whatever the form of transfer, timing is crucial: an ill-timed food transfer can depress local markets; well-judged cash transfers can strengthen local demand for food products, but ill-judged ones can be inflationary (Farrington et al, 2003).

As Box 4 indicates, much innovative experience on social protection has been gained in regions other than Asia, offering substantial potential for cross-learning.

Box 4: Examples of innovative approaches to social protection

There is a growing interest in cash transfers in both development and relied contexts. But many types of cash transfer can complement each other, as well as complementing in-kind transfers and wider public investment. They include:

- welfare payments such as social pensions for the elderly, disabled and widows, allowances to HIV/AIDS orphans and so on (Farrington et al, 2004; Case and Deaton 1998)
- targeted and conditional transfers linked to service delivery, such as payments for attending mother and child clinics, sending girls to school etc (Barrientos and de Jong, 2004; de Janvry et al 2005)
- livelihood support payments to Zambian households below the poverty line, which they can spend as they wish (Schubert and Goldberg, 2004)
- matching funds which supplement the contributions that people themselves make to e.g. savings schemes, health and life insurance, and so on (experience within the USA on Individual Development Accounts – IDAs – appears relevant here – see Abt Associates, 2004)

The type and extent of progress in this has varied according to broad type of regime: state-led industrialization with trade liberalisation was a principal driver of rapid growth and poverty reduction in East Asia, with concerted attention to lagging regions through resource transfers. Substantial progress was achieved by centralized, capable government in South Korea in the 1960s and 1970s, and China and Vietnam in the 1990s. Progress under competitive regimes in South Asia has been more gradual. Economic growth accelerated in the 1990s in Bangladesh, India and Sri Lanka as a result of selective trade and price liberalization but without fundamental change in state capacity. Less progress has been achieved under partial democracies in Cambodia and Pakistan, which are characterized by political instability and a legacy of authoritarian rule. Growth performance has been modest with limited progress on poverty reduction and the MDGs. States ruled by autocratic governments and facing large scale insurrection – such as Burma and Nepal – have made least progress.

⁴¹ Although the winding down of food transfer has long been resisted by wealthier farmers who benefit from related price guarantee schemes, and from employees of the Food Corporation of India, which would be considerably wound down under such proposals

⁴² Examples of targeted and conditional cash transfer schemes in Latin America are presented on the conference website: www.asia2015conference.org

Patterns of governance in successful Asian economies are changing. A variety of factors are at work, ranging from the effects of domestic liberalization, responses to globalisation and international trade regimes, and demands for better governance voiced by citizens (Cheung and Scott 2003a). A further factor is the influence exercised by development agencies, through conditionality or programmatic support for governance initiatives developed by Asian governments.

Five key lessons from the Asian experience can inform the design and implementation of strategies to promote growth and poverty reduction:

- Improving transparency and accountability in financial management is a crucial first-order reform agenda.
- The decentralization agenda is best pursued as one of devolution, resource transfers and improved service delivery through the mobilization of a range of local actors.
- Intelligent pursuit of micro-level solutions and incremental approaches which build up a strategic momentum for further reform offers a crucial window of opportunity.
- Targeted efforts on specific MDGs incorporating social mobilization and clear identification of intermediate milestones can fast-track results.
- Improved connectivity – physical and electronic – can galvanize an empowered citizenry which in turn becomes a powerful constituency for governance reforms.

Evidence of innovative practice in improving governance can be found in a number of areas:

Innovative solutions to redressing entrenched corruption

What is often overlooked in donor-driven reform initiatives that contain anti-corruption elements is the need to mobilize a critical coalition of operational actors and to establish clear incentives for performance. The Government of Bangladesh is developing incentive-based systems with partners, focusing on e.g. improvements in school attendance by girls and in community management of water in Dhaka.

Strategic ring-fencing to foster quality institutions

Given the difficulty of implementing wide-ranging governance improvements, a second-best option ('good enough governance') is to create critical pools of higher institutional quality at strategic points of the governance process, such as the Public Service Commission (for administrative recruitment), Election Commission (to serve as a political watchdog), Central Bank (financial management), economic policy unit, and infrastructure investment agency.

Promoting micro solutions

Reformers have often overlooked the potential of the micro solutions. Strategically chosen micro solutions create visible results which can build up reform momentum. Examples in Bangladesh include local government reform, criminal justice reform, changes to the land management system, or in the focus on quality in basic education.

Promoting a local governance approach to decentralization and service delivery

Changes in the formal structures and procedures of decentralisation can lag behind rapidly transforming ground realities focusing on service outcomes. Features of recent experience include community engagement, contracting out, various forms of delegation and privatization; new ways of working with the local administration, and with NGOs, the private sector and communities.

Rekindling a public service ethic

The importance of an ethically committed administrative and political class in the emerging governance agenda cannot be over-emphasized. The challenge here is both to deepen a social discourse and develop specific training possibilities which can pass the tests of social credibility and customer interest.

Examples of 'good practices' in Asia

The Asian experience offers a rich diversity of successful governance initiatives. Examples extend not only to systemic initiatives but also to quality institutions, success in scaling up micro initiatives, and, programmatic initiatives focused on specific needs.⁴³

Experience in the region demonstrates that it has been possible to achieve a high level of social development (and mitigate the worst manifestations of poverty) in the absence of a thriving economy if the government sets the right priorities, as demonstrated by the health and education policies of South Korea, Sri Lanka and Malaysia.

Asia also offers a number of examples of quality institutions that contribute to positive governance and development outcomes, including the anti-corruption agencies of Singapore and Hong Kong, and, perhaps less well-known, the Election Commission in India, and the Local Government Engineering Department (LGED) in Bangladesh.

A third category of good practices has been the successful scaling up of proven local level initiatives. Pioneered by activists in Rajasthan, the campaign on right to information has since 2005 graduated to a national law.

A fourth category of good practices has been programmatic success on specific needs in otherwise poor governance environments. The sanitation campaign in Bangladesh provides a useful illustration of this process, and another is provided by the revolution in mobile telephony. Poor people in rural areas now have access to information and can communicate with the outside world in ways that were inconceivable a decade ago.

A fifth category – the computerisation of all aspects of government provision of goods, services and social protection – aims to strengthen performance across a number of these areas in at least three ways: by e.g. improving the tracking of public expenditure, and so improving the basis for monitoring of performance; by making services more readily available (such as the printing of land records); and by making information on government programmes available to the public in more accessible and timely ways, and allowing them to feed back queries, comments and complaints. The Government of India's Common Minimum Programme has made major commitments to an 'e-governance' programme, with initial support from the World Bank of some US\$500M,⁴⁴ one major component of which will be the updating of and improved access to land records.

Finally, the governance agenda is often formulated in the language of 'big solutions' while neglecting the window of 'small solutions' which can get started right away with much less of a challenge for policy innovation. Micro-governance agendas are important not only because they can prove to be effective entry points to prise open intractable macro-governance agendas; they can also provide a real-life demonstration of what is feasible in contexts which may not be amenable to more ambitious reform.

⁴³ Independent South Asian Commission on Poverty Alleviation (ISACPA), 2004, *Our Future, Our Responsibility*, SAARC Secretariat, Kathmandu.

⁴⁴ See <http://www.worldbank.org.in/external/default/>

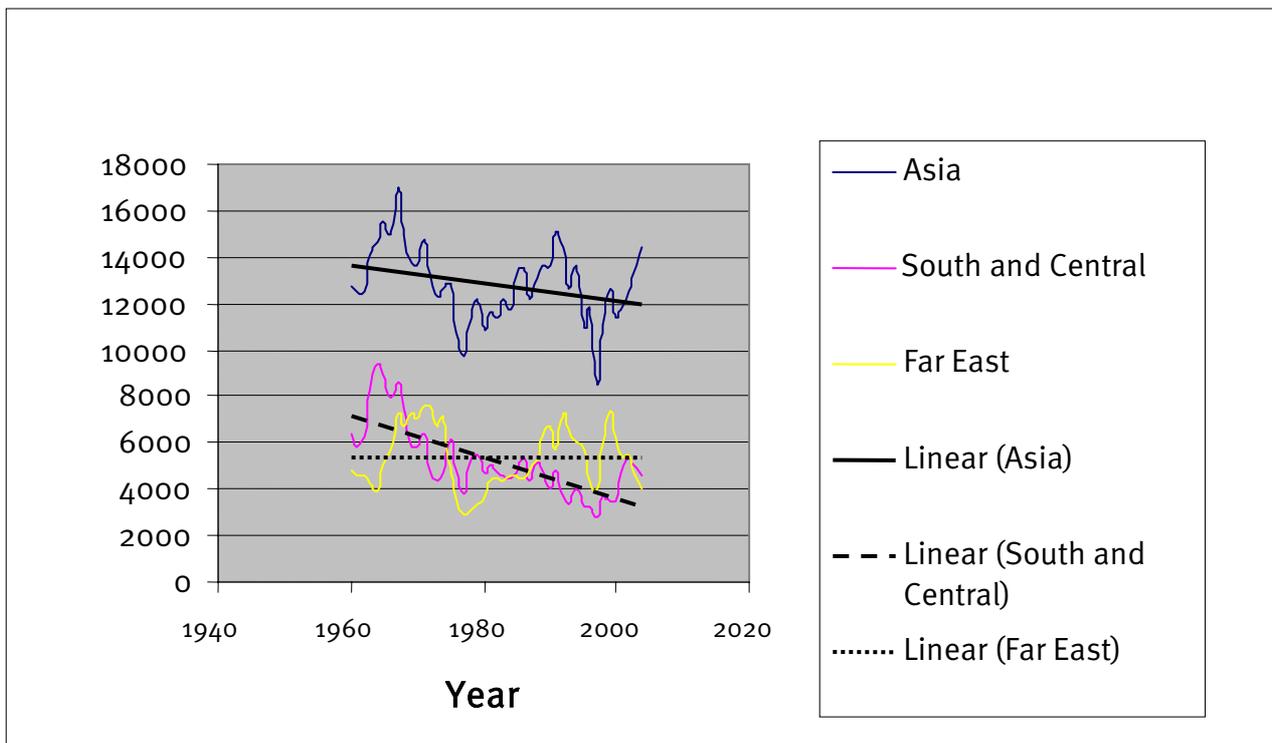
5 Towards New Partnerships

Background

Development assistance to Asia, whether via bilateral or multilateral agencies, and whether as grants or concessional loans, has declined in aggregate over the last three decades, as Figure 6 shows. These averages conceal wide inter-country variation: assistance to several of the slower-growing countries where poverty continues to be widespread has increased, and these are likely to continue requiring ODA into the future.

However, the broad political context of development assistance in the region is changing: India and China are emerging as major economic powers in their own right and will soon reach ‘middle income’ status. Development assistance to them has never been the equivalent of more than a small part of GDP and is likely to diminish rapidly in the future. These and other countries such as Vietnam exemplify a new Asian confidence in taking charge of its own development agenda.

Figure 6: ODA from DAC countries to Asia, 2003 US \$millions



Against this context, two trends seem clear:

- first, there will increasingly be concerns which represent a ‘shared agenda’ among Asian countries (or sub-sets of Asian countries) and between them and the rest of the world, many (but not all) of which are concerned with joint management of international public goods;
- second, countries emerging as economic ‘powerhouses’ will engage more with other countries within and beyond the region, both bilaterally and through multilateral organisations, both in economic and political spheres. They will also engage more with the international systems of governance established in relation to particular economic or political issues, and some may themselves become donors. As this engagement increases, so inevitably also will the world’s

expectations that they behave as good ‘global citizens’ and that they take a fair share of the responsibility for stewardship of resources, whether concrete, such as environmental, or less tangible, such as international security. Smaller countries are confronted with the realities of an increasingly globalised world and of large, powerful neighbours. Consequently they face the necessity to transform and reconstruct their economies, and will work increasingly through bilateral and regional relations as they do so.

In what follows, our concern is primarily with the first trend. We identify aspects of the ‘shared agenda’, indicating possible policies, roles and partnerships, and elaborate on environment and energy as a specific example.

Definitions

For present purposes, partnerships can be defined as relationships between two or more organisations that go beyond immediate formal or informal contracts, and seek longer-term relations. They can involve any combination of the following:

bilateral donors, multilateral donors, International Financial Institutions, intergovernmental agencies at global or regional level, multinational commercial enterprises, international NGOs

with any of the following:

developing country governments, national or sub-national commercial enterprises or NGOs, regional intergovernmental agencies.

They can also include relations among organisations located within a particular country, including government and private commercial sector in Public-Private Partnerships (PPPs). But our main concerns are at the regional and international levels, and the central question is whether there are potential demands for development agencies to play new roles.

Prospects for Partnership

Partnerships for the future are likely to fall into two broad categories: first, those involving some re-balancing and modification of existing relations – different ways of delivering conventional development assistance fall into this category; second, those focusing increasingly on a ‘shared agenda’, including but beyond immediate poverty reduction agendas, which may require innovative forms of partnership.⁴⁵

These two categories are discussed in turn below, but a prior discussion is necessary of some of the elements of partnership which are generic to these two broad categories.

First, the Paris Agenda of March 2005 set the scene for better aid effectiveness with better development agency alignment and harmonisation emphasising that agencies should, for instance, follow the policy lead of governments in poverty reduction, and use national systems of monitoring and reporting on progress. We should therefore expect to see higher levels of alignment and harmonisation in future, with the designation of particular agencies to take the lead in specific sectors in their in-country work. The Hanoi Core Statement of the Government of Vietnam is a striking illustration of how governments can lead on this process.

Second, the capacity of the corporate sector to reduce poverty remains under-exploited. Stronger poverty reduction can result from a wide range of policy initiatives, including encouragement of enterprise which creates abundant low/semi-skilled job opportunities, the creation of incentives for

⁴⁵ The possible reform of regional organisations falls beyond the scope of this paper

enterprise to locate in lagging regions, and so on. Some of these arrangements may require more formal types of public/private partnership, but it has to be stressed that, if they are to be successful, PPPs will require higher levels of consistency and transparency in public policy than commonly observed. One step further than PPPs is the promotion of socially responsible investment, in which companies prioritise development of the human resources of their staff, and, through e.g. investments in infrastructure such as water supply or telecommunications, the welfare of neighbouring areas (see www.odi.org.uk/pppg/PBAS)

Third, generic to many partnerships is the promotion of new learning. This can be through the piloting of new initiatives adapted from elsewhere, and/or through exchange visits, workshops etc within or beyond the region. In other circumstances, more formal approaches will be needed for the transfer of science and technology skills, or for joint research into specific issues of shared concern.

Turning to the two broad categories of partnership identified above:

New practice in development assistance

Poorer countries and areas will require considerable volumes of development assistance to promote e.g. infrastructural development, the delivery of services and social protection, humanitarian assistance, and/or assistance in the formulation and implementation of pro-poor growth strategies or PRSPs. There are clear requirements for the scaling up of development agencies' efforts, and, through agreement at the 2005 G8 Summit, sufficient new aid resources to permit this. In addition, development agencies can assist by drawing in good practice from other parts of the region, and in offering modalities for the development of partnerships with NGOs and with the private sector, for the reform of administrative and financial systems, and for the promotion of civil society participation in selecting, monitoring and providing feedback on development interventions. Improvements in governance are likely to require support from development agencies in all of these ways, but also in a shift from conditionality towards positive encouragement and the development of mutual policy commitments.

In addition, the ADB's Greater Mekong Sub-region initiative demonstrates the benefits of *cross-border* infrastructure building. Parallel initiatives such as the South Asia Sub-regional Economic Cooperation or the Central and South Asia Trade and Transport Forum intend to generate similar benefits elsewhere.

There is considerable scope for aid partnerships to use grants and low-interest loans for provision of 'hard' infrastructure (e.g. roads, ports, dams and airports). Partnerships can be enhanced through provision of political risk insurance through the World Bank's Multilateral Investment Guarantee Agency (MIGA), which serves to encourage private investment in the sector. Additional assistance could come via the World Trade Organization, where there is increasing discussion about assistance for trade supply side constraints, including infrastructure constraints.

Official development assistance is likely to remain small in relation to total infrastructure investment needs in Asia, though of greater significance for smaller and poorer countries that face particular problems in attracting private investment. But it may have a disproportionate effect in leveraging investment by helping to strengthen policy and institutional frameworks, promoting and sharing good practice particularly in relation to social and environmental issues, and reducing and managing political risks.

Specifically in relation to service delivery, successful programmes are often characterised by work in partnership with both commercial and non-profit providers. These can enable governments to reap the benefits of the private sector—increasing the efficiency of resource use, leveraging private sector funds, improving the motivation of front-line staff and targeting particular groups. In addition, non-profit providers have devised a number of innovative ways of reaching the poor in service delivery and social protection, which merit screening for their appropriateness for scaling up. Particularly in the case of

partnerships with the non state sector, the challenge for governments is to generate capacities for appropriate tendering, monitoring, enforcement and approval of contracts (Mills and Broomberg 1998).

The experience of contracting of health care management in Cambodia provides but one example of successful partnership with NGOs (see Box 5).

Box 5. Contracting for public health care in Cambodia

In the mid 1990s, when Cambodia emerged from a long war and political upheaval, its health services were in disarray, especially in rural areas. To address these issues, the Ministry of Health with the help of an ADB loan contracted NGOs on a large scale to improve coverage of health care. Systematic collection of data on contracted out (where NGOs had full control over service delivery) contracted-in (where NGOs provided management support and existing government staff and financing were used) and government provision (control districts) before and after the contracting enabled a comparison of the effect of contracting on utilization of health care services, particularly the poor. Evaluations indicate that health care utilization has improved considerably in both contracted-out and contracted-in districts with a disproportionate increase in use by the poor. Simultaneously, total family expenditures on health care have reduced. The experience suggests that contracting with NGOs offers a way of improving quality and increasing coverage. Successful contracting however requires clear and objectively verifiable indicators and performance targets, political support for contracting at central and local levels, civil service arrangements that allow government health workers to work for NGOs at market rates and flexibility for NGOs to manage in pursuit of outcomes.

(Schwartz and Bhushan 2004)

See also: <http://www1.worldbank.org/devoutreach/mayo5/article.asp?id=300>

The overall lessons from this rapid overview of partnerships for delivering development assistance are that:

- There will be a strong demand for financial support to the poorer countries and areas within countries for the foreseeable future. Much of this will be for service delivery and broader financial support as countries tackle difficult processes of change; and a good part will be for infrastructure
- But other support will also be important, including promoting the conditions for successful partnership with commercial and non-profit organisations, promoting cross-learning within and beyond the region, funding collaborative research into new options, pilot testing as appropriate, and monitoring the impacts of new approaches
- All of this means that a range of funding instruments will continue to be needed, some involving budgetary support, but others at programme and even smaller-scale levels, with considerable flexibility among them. For development agencies constrained by staffing norms, the challenge will be to devise mechanisms to accommodate the smaller scale disbursements needed for e.g. 'learning' approaches

Towards a shared agenda

As countries and regions become more interdependent, in trade, fiscal stability, natural resource management, and so on, there are growing opportunities for development agencies to work with low and middle income countries in resolving issues of shared concern. This is not to say that development agencies would necessarily lead on these – the lead responsibility may lie with intergovernmental or other international bodies and/or with other departments within development agencies' own countries, but there may be increasing overlap between agency mandates and those of other organisations concerned with these issues, and a growing imperative for development agencies to find ways of supporting them.

There follows an indicative list of shared issues, which does not claim to be comprehensive, but accords broadly with a number of the topics flagged for discussion at the Asia 2015 conference. The first three of these contain only a small, if any, public goods component. Others are mainly public goods issues. These, and the questions they pose for partnership, are:⁴⁶

i) Management of regional disparities in economic development

As discussed above, the ‘emerging giants’ create both opportunities and threats for smaller, and often slower-growing neighbours. The Initiative for ASEAN Integration (IAI)⁴⁷ was launched by the ASEAN leaders in 2000 to strengthen regional cooperation in bridging the development gap among ASEAN member countries. One of its provisions is for the older members to grant preferential and special treatments to new ASEAN members. What scope does the IAI offer for additional financial resourcing and technical support from bilateral and multilateral agencies currently active in the region?

ii) Management of regional financial stability

The 1997-98 crisis caused a slowdown in growth and investment, with severely adverse effects on poverty, from which some countries have not yet fully recovered. Regional efforts such as the Chiang Mai initiative are intended to reduce the risk of recurrence, but there is likely to be a need for additional measures at national level, such as regulating banks to avoid lending into non-productive, high risk sectors, managing exchange rates and in some cases, exchange rate regime transition and reduction of budget deficits. An important question is how far links at the international level will draw on conventional organisations such as the IMF, or will require new, yet to be identified, arrangements, in which bilateral and multilateral agencies may have a role.

iii) Improving the investment climate

Efforts to coordinate financial and monetary policy in Asia since the 1997 crisis have taken two forms: increased exchange of information and collaborative surveillance (as included in the Manila Framework Group and the ASEAN Surveillance Process) and methods of providing regional financial resources. Whilst the first has achieved only moderate success, the second evolved via the Chiang Mai Initiative (CMI) to two regional facilities for liquidity, namely: the ASEAN Swap Arrangement (ASA) and the Bilateral Swap Arrangement (BSA). The small scale of these makes them at present no more than a complementary source of financing to the IMF.

There are opportunities for new partnerships to facilitate improvements in the business climate. While development and aid agencies have already contributed by high quality analysis of the micro constraints in many Asian countries (see e.g. the World Bank ‘Investment Climate’ and ‘Doing Business’ surveys), prioritisation of investment climate reforms requires stronger cooperation between international agencies and national governments, and the use of regional knowledge to glean good examples of what has worked in their own countries. These partnerships can promote e.g. technology sharing – for example, assessing how software has been used in Singapore to facilitate the application and approval of business licenses or tax administration.

Development assistance agencies have potentially much to offer in terms of business climate improvement. For instance, high returns can be generated by efforts to build partnerships around technology transfer: governments and companies, within and beyond the region, can share examples of how they have used technology to facilitate administrative procedures relating to business licenses, taxation, customs valuation etc. They can also help countries to establish transparent codes of conduct when investing at home and abroad, including labour standards.

⁴⁶ Trade (whether international or regional), international security and debt relief might in principle be added to this list, but are excluded here since they are governed by separate international fora, and the additionality that could be generated from a conference of this kind may be limited.

⁴⁷ See: <http://www.aseansec.org>.

iv) Improving arrangements for disaster management

The December 2004 tsunami highlighted the need for better means of predicting natural disasters. The availability of relevant data (in this case, seismic monitoring) in western countries raises the prospect of closer collaboration between them and emergency services in developing countries, with joint progress on the refinement and dissemination of warnings. The potential spread of pandemics (SARS; Avian flu) is a direct cause for concern in developed countries, and raises the prospect of shared monitoring and response. The role of shared science and technology in disaster preparedness is potentially high in both of these cases.

v) Improving the management of internal, cross-border and international migration

The opportunities and pressures accompanying economic transformation generate internal migration, often initially on a seasonal basis, ultimately more permanently. This may extend across borders to proximate areas of rapid development, and, for several countries in the region, international migration to the Middle East and beyond is a major source of revenue. The poor (but not poorest) are heavily represented in all forms of migration except international, and face major problems of economic, social and personal insecurity, poor information on work prospects and limited ways of remitting earnings. Development agencies can provide support to promote learning among the widely differing approaches to internal and international migration, but cross-border migration within the region requires close collaboration among the countries affected. Current regional inter-governmental bodies may not lend themselves to the necessary attention to detail here and bilateral partnerships may be necessary – an area in which experience is currently limited and new approaches and models are urgently needed.

vi) Improving the management of natural resources and the environment

Investment needs are significant, and the conference paper on the environment⁴⁸ highlights some of the returns that can be expected from investments in environmental health and soil conservation. There is an increasing role for private investments, especially in water supply, but governments have a crucial role in defining and managing the regulatory frameworks within which the private sector operates. The *Fourth World Water Forum* and the *Financing Water for All Task Force* are examples of growing international collaboration on the setting of priorities for quasi public goods: they will provide recommendations on how to invest in water in the next decade in several regions, including Asia, and so provide a set of priorities to which development agencies can contribute.

Regional cooperation may be key to realising benefits from some assets e.g. trans-boundary rivers, control of trade in timber, and generation of regional markets for NR products and environmental services such as hydro-power. Regional approaches may be necessary for tackling some environmental hazards such as forest fires, floods and droughts, to which poorer countries and groups are especially vulnerable, and for setting up early-warning systems, in relation to e.g. tsunami and severe storm occurrence.

The private sector is taking some important initiatives – such as the Equator Principles code of conduct and collaborating with the Extractive Industries Transparency Initiative and self-regulation of European timber importers. Governments, private sector and civil society work together on forest labelling and certification, through e.g. the Asia Forest Programme (AFP) and Asian Forest Law Enforcement and Governance (Asia FLEG) programmes.

Regional cooperation may be key to realising benefits from some assets e.g. trans-boundary rivers, control of trade in timber (via e.g. the Asia Forest Programme (AFP) and Asian Forest Law Enforcement and Governance (Asia FLEG)), and generation of regional markets for NR products and environmental services such as hydro-power. Regional approaches may also be necessary for tackling some environmental hazards such as forest fires, floods and droughts, to which poorer countries and groups are especially vulnerable.

⁴⁸ Bass and Steele, 2006

The need for new international partnerships is seen most clearly in current efforts to establish a meaningful post-Kyoto regime to limit the causes and effects of climate change. For the region the challenge is first to engage in and influence discussions and negotiations that will have a substantial impact on the future of the region, and second to take advantage of new opportunities for addressing environmental issues. A good example of the latter is provided by the Memorandum of Understanding recently signed by the World Bank and the Chinese Ministry of Finance for collaboration in the design and development of a Clean Development Fund (CDF), through which revenues accruing to the Government of China as a result of the sale of emission reductions will be used to support sustainable development activities.

Equally, however, the challenge is for countries outside the region, particularly the G8 countries, to engage constructively with the Asian economies on environmental issues. The G8 Gleneagles plan of action on climate change, clean energy and sustainable development highlighted many areas for partnership.⁴⁹

vii) Meeting energy needs in safer, cleaner and more efficient ways

New agreements to introduce infrastructure and organisations for power interconnections among neighbouring countries include those in the Greater Mekong, namely the Regional Power Trade Coordination Committee (RPTCC) and Regional Power Trade Operating Agreement (RPTOA). These may offer lessons for other Asian sub-regions.

In the longer-term, strategies will be required to find alternative sources of energy, and this challenge is not specific to Asia. The larger Asian economies are now directly competing with Western economies for energy resources, and there are signs that the global energy market is becoming stretched. Managing the global supply and demand for energy will require the active participation of Asian countries, as will research into new or improved energy supply. Without such active involvement, Asian economies will find themselves purchasers of (potentially unsuitable) new technologies developed elsewhere. Given the rapidly growing size of the region's consumption of fossil fuels, Asia's participation in post-Kyoto climate change negotiations will also become increasingly important.

A specific illustration of possible new partnerships in energy and environment analyses the kinds of roles currently played by various 'stakeholders' across two dimensions of the environment-related issues. One dimension refers to the list of suggested 'actions' that are thought to be required to move forward and the second refers to the list of 'domains' where action is particularly urgent. Analysing these role / stakeholder 'landscapes' allows one to identify a typology of potential partnerships.

From the tables that follow, it appears that partnerships and roles differ according to activity, in ways summarised in Table 2.

Table 2: Partnerships in environmental issues, by activity

Finance pilots and lesson learning	Bilaterals, multilaterals, governments, private sector, NGO's
Major finance for delivery	Governments, private sector (independent or PPP), multilaterals, bilaterals, NGO's (conservation and disaster response)
Implementation / delivery	Local community, private sector, government (WatSan, cross border river management, conservation)
Regulation, including auto-regulation	Government, local community and private sector and NGO's (inform government-led process and auto-), regional and international (cross-border and global common goods)
Lesson learning / sharing / technical assistance	All – key role for NGO's and S&T
Advocacy	NGO's

⁴⁹ See <http://www.number-10.gov.uk/output/Page7882.asp>

Business partnerships for development

The 1980s experienced rapid and extensive change in the labour market. Business faced increased criticism of traditional corporate behaviours and encouraged modern companies to expand their philanthropic activities to demonstrate their social consciousness (Cappellin and Giuliani 2004:1). In recent years use of the term, ‘corporate social responsibility’ (CSR) has become widespread --pressures from investors and stakeholders are affecting many corporations and strategic decisions at corporate level often include ethical decisions (Warner 2002).⁵⁰ Furthermore the practice of Public-Private Partnerships (PPP) is growing with much emphasis on how PPPs can be orchestrated to provide health, education and other social provisions such as housing.

Increasingly the private sector and businesses are adopting practices of CSR and PPP, adding to the diversity of their portfolios. Whilst there is no single definition of PPPs and the term denotes different meanings to different practitioners the core concept involves:

‘...business and/or not-for-profit civil society organizations working in partnerships with government agencies and official development institutions. It entails reciprocal obligations and mutual accountability, including either voluntary or contractual relationships; the sharing of investment (financial or in-kind) and reputational risks (rather than the one-dimensional transfer of risk to the private sector), and joint responsibility in design and execution’

(WEF 2005:8)

Many firms have concluded that compelling opportunities exist to apply core competencies to PPPs.

Analysis by WEF (2005) recommends that more concerted effort by governments and companies to scale up the use of PPPs in poor could help to fill a significant part of the MDG resource gap. However Warner (Feb 2004, ODI opinion) suggests that the many of the poorest countries in the world, ‘there remain persistent challenges to realizing the true value of corporate sector investment’ (2004:1)

Multi-sector collaboration has increased in project design, infrastructure development, service delivery, institutional strengthening and performance oversight, but more work is needed in refining and targeting PPPs as a tool.

Major findings of WEF (2005) report include:

- Direct private investment in education, health and water in poor countries remains at low levels however it is emphasized by practitioners that the ‘mere involvement of business and NGO personnel in a partnership project often produces management efficiencies, innovation, and a performance culture that can be as valuable as the financial resources committed’ (WEF 2005:10)
- Increasing numbers of companies are coming to the conclusion that cooperating in poor countries with governments or NGOs can involve more than just the pursuit of community philanthropy. Businesses can gain clear economic benefits to their labour productivity, human resource costs and marketing and brand recognition strategies. However the extent of these dynamics remain unstated in both the public and private sector
- Engaging and strengthening local private sector actors is an area where more work is essential and little data is available. As local industries and local small and medium-sized enterprises (SMEs) have an important role to play in local and national development, more attention needs to be paid to include the local private sector in capacity building efforts⁵¹

⁵⁰ For example pressure groups are purchasing shares to influence strategic decisions at annual meetings.

⁵¹ For example Shell Corporation has invested in developing local SMEs in India. For details see Lopatin, M (ed) (2005) Enterprise solutions to poverty: Opportunities and Challenges for the International Development Community and Big Business. Shell Foundation

- National governments need to improve the policy and institutional environment, including consistent policies and legal systems that support long-term engagement by the private sector
- Establishing facilitation and brokering platforms is essential. A company may have a general inclination to make certain resources and expertise available for the public good, but it may have neither the time nor staff capacity to scout the landscape for suitable official and NGO development partners. Developing a public-private partnership to bridge this information gap through the proactive identification of corporate interests and public needs could make an important contribution to progress on the MDGs (WEF 2005:12). The UNDPs 'Growing Sustainable Business' initiative to provide a brokering service illustrates one example.

6 Conclusion

Key papers prepared for the conference on major themes of growth, poverty reduction and new development support relations will stimulate discussion and generate new ideas on policies and partnerships in response to the development challenges faced by Asian countries. The outcomes of discussion will be synthesised and disseminated in the Chairperson's closing statement. Where appropriate, the conference outcomes will be forwarded to regional meetings and forums especially those concerned with regional integration and cross border action on energy, trade etc.

It is anticipated that the main outcome from the conference will be to raise awareness and the level of commitment to take action on development and poverty reduction in Asia. It is hoped that this will give rise to specific proposals to be taken forward over the coming years for example on: scaling up aid levels by development agencies and replicating good practice on aid effectiveness; action to exchange lessons and build capacity in Asia in areas such as trade, environment and energy/resource use; new initiatives to plug the infrastructure financing gap; new ideas on how to support regional integration.

The conference will provide a unique opportunity for development agencies to re-think their strategies in response to changing Asian priorities. All the indications are that regional partners are beginning to look for new relationships grounded in mutual interests (development assistance; trade; debt relief; security; environment); the Paris agenda opens the opportunity for mutual accountability; and the Gleneagles summit paves the way for higher aid budgets. This conference will be opportune in exploring and taking forward these new prospects.

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Session 3

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Session 4

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Connecting East Asia: A New Framework for Infrastructure. Joint study of infrastructure in East Asia by the Asian Development Bank, World Bank and the Japan Bank for International Cooperation.

Roland-Holst, D., Jean-Pierre Verbiest, and Fan Zhai. (2005) Growth and Trade Horizons for Asia: Long-term Forecasts for Regional Integration
<http://www.adb.org/Documents/Periodicals/ADR/pdf/ADR-Vol22-2-Holst.pdf>

Labor Markets in Asia: Promoting Full, Productive, and Decent Employment
Paper by the Asian Development Bank reproducing a special chapter of Key Indicators of Developing Asian and Pacific Countries 2005. <http://www.adb.org/Economics/pdf/Labor-Markets-in-Asia.pdf>

Poverty in Asia – Estimates and Projections Asian Development Bank (ADB), Key Indicators 2005.

Export or domestic demand-led growth in developing Asia? Part I of Asian Development Outlook 2005 'Promoting competition for long-term development' published by Asian Development Bank.

Table A1.2 Progress towards MDGs in Asian countries – number of countries by individual target

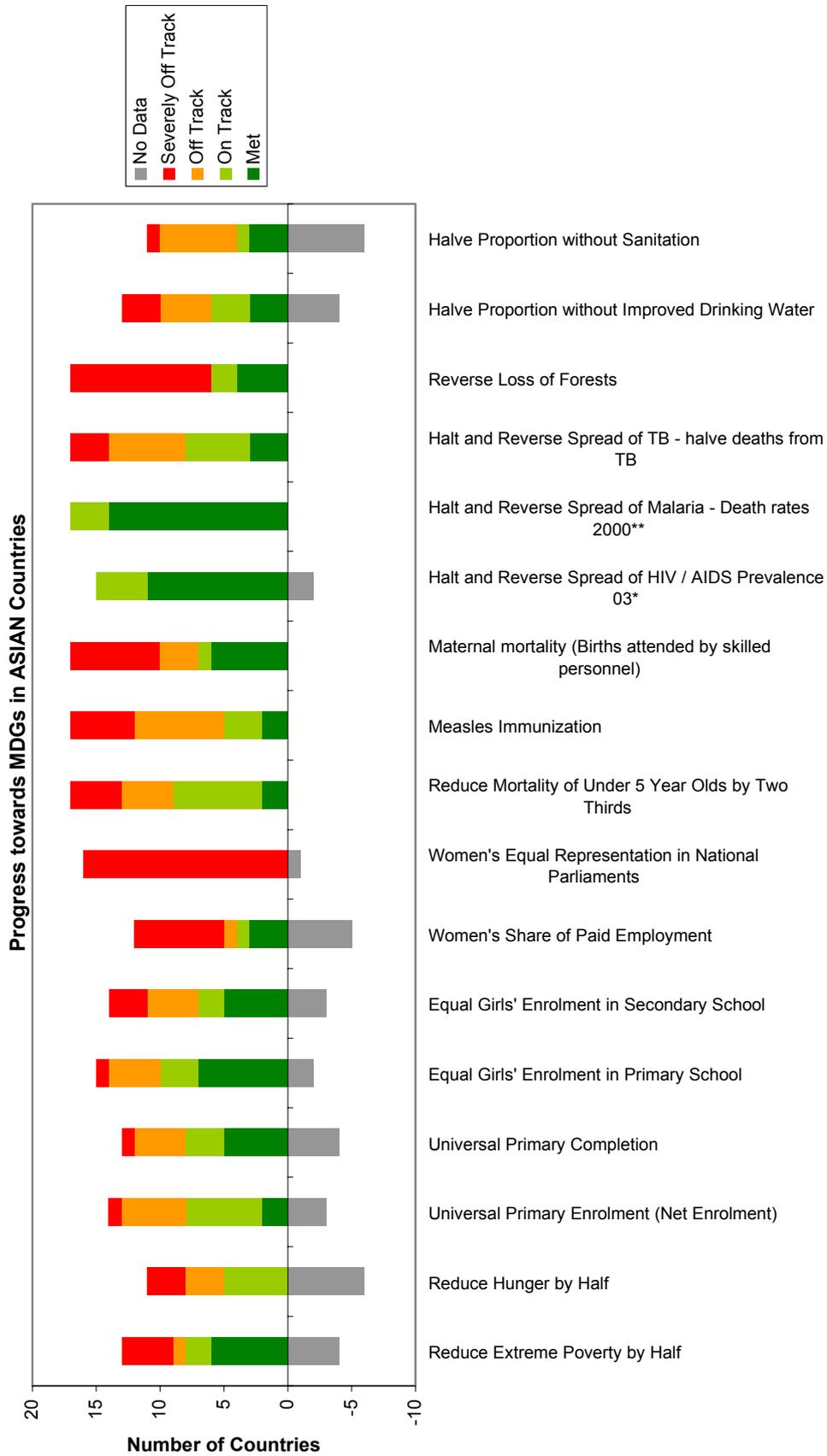


Table A1.3 Progress towards MDGs in Asian countries – number of targets by individual country

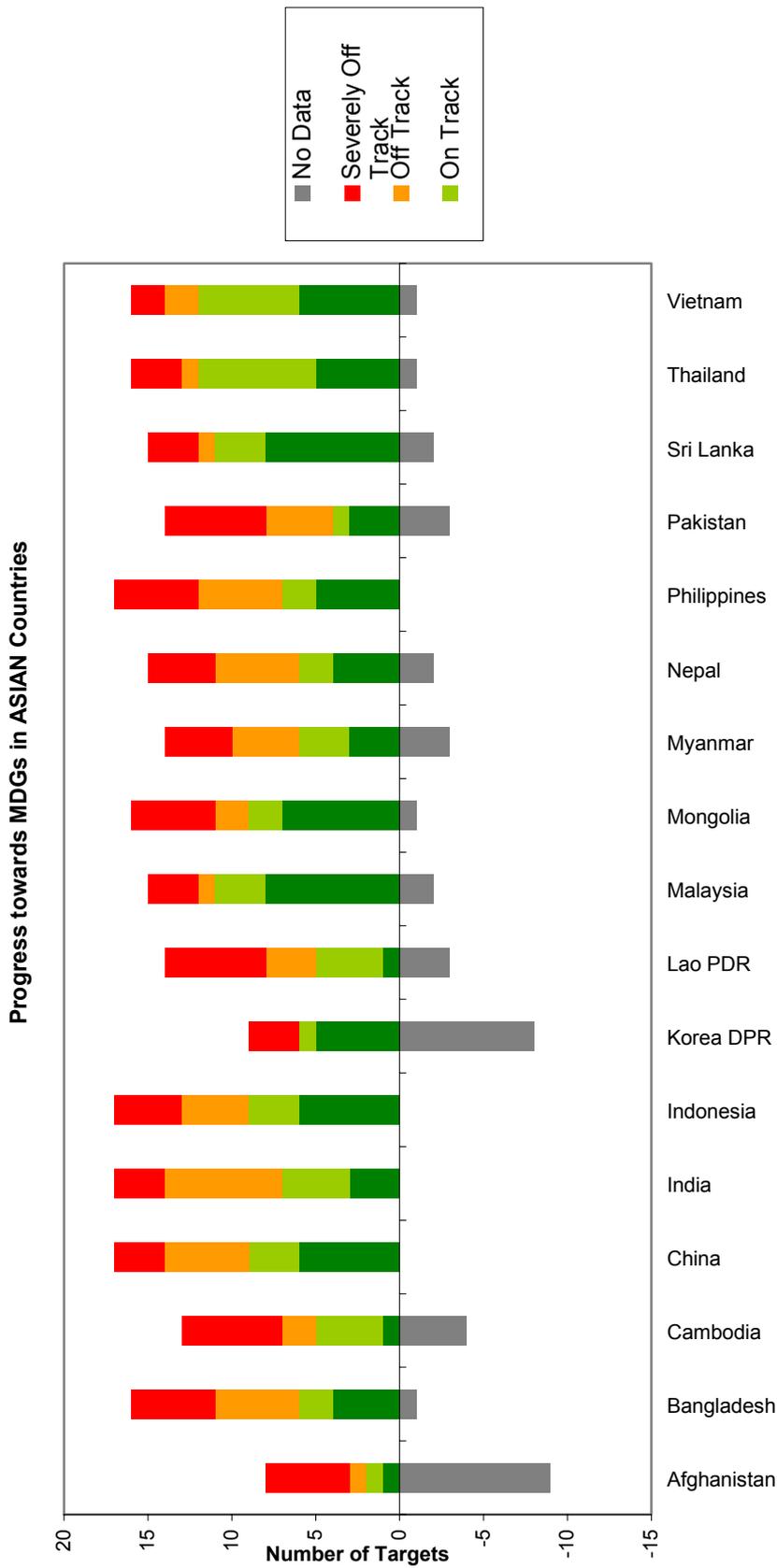


Table A1.4 Methodology

<p>General methodology. If target is met already, it is classified as "met". Otherwise, a geometric growth rate is calculated between the data point that is closest to 1990, and the most recent data point to assess the rate of progress. For each country, if the indicator is making progress fast enough to meet the target by 2015 then it is classified as "On Track". If, at the observed rate of progress it will take double the time, that is 2050, then it is classified as "Off Track", or if it is slower than this, or deteriorating then "Severely Off Track". See table below for details and exceptions to the general methodology for particular indicators. <u>Data source:</u> UN Statistics Division database, accessed in Autumn 2005</p>		
Indicator	Target	Additional details of classification of progress
Poverty headcount ratio at \$1 a day (PPP) (% of population)	Reduce Extreme Poverty by Half	
Malnutrition prevalence, weight for age (% of children under 5)	Reduce Hunger by Half	
Net primary enrolment rate, (%)	Universal Primary Schooling	Above 95% = "met".
Gross primary completion rate, (%)	Universal Primary Completion	Above 95% = "met"
Ratio of girls to boys in primary education	Equal Girls' Enrolment in Primary School	Above 0.975 = "met"
Ratio of girls to boys in primary and secondary education	Equal Girls' Enrolment in Primary and Secondary School	Above 0.975 = "met".
Women's Share of Paid Employment in the non-agricultural sector	Women's Share of Paid Employment	Above 47.5.% = "met".
Proportion of seats held by women in National Parliaments	Women's Equal Representation in National Parliaments	Above 47.5% = "met".
Mortality rate, under-5 (per 1,000 live births)	Reduce Mortality of Under 5 Year Olds by Two Thirds	
Proportion of children aged 1 immunised against Measles	Measles Immunization	
Births not attended by skilled birth attendants (% of total)	Reduce Maternal Mortality by Three Quarters	10% not attended = "met"
Malaria death rate per 100,000 people, all ages	Assessed by current level of prevalence only	Under 10= "met" Under 50-"on-track"
Tuberculosis death rate per 100,000 people, all ages	Halt and Reverse Spread of TB - halve deaths from TB	
Percentage Forest Coverage	Reverse Loss of Forests	Increase = "met" No change = on track Reduction = Severely off track
Improved water source (% of population without access)	Halve Proportion without Improved Drinking Water	
Improved sanitation facilities (% of population without access)	Halve Proportion without Sanitation	

Annex 2: Examples of the roles of stakeholders and partners in energy and environment in Asia

Table A2.1: Energy: roles of main stakeholders – by required action

	Bilateral / multilateral donors	Local communities	Private sector	Governments (national / local)	Regional (ASEAN, SAARC, ...)	International (UN and others)	NGO's	Science and technology
Exploit as yet underutilised energy sources w/l the region	Xxx (multilaterals: finance)		Xxx (finance, implement)	Xxx (Finance, regulate)	Xx (identify, regulate)	X (identify)		Xx (identify)
Invest in import of energy	Xxx (multilaterals: finance)		Xxx	xxx	Xxx	X		Xx
Establish long term agreements with exporters			Xx	xxx	X	X		
Review energy subsidies	xx		Xxx	xxx	Xx	X	Xx	X
Improve management know-how of energy distributors and suppliers	xxx	x	Xxx	xxx	xx	Xx	Xxx	X
Improve accountability and transparency	x	xx	Xxx	xxx	x		Xxx	
Review portfolio of energy sources	xx		Xxx	xxx	xx	X		Xxx
Management of global energy market			Xx	xxx	xxx	Xxx	Xxx	Xxx
Invest in research and technology innovation	xxx		Xxx	xxx	xx	Xx	X	Xxx
Post Kyoto negotiations	x		Xxx	xxx	xxx	Xxx	Xxx	Xxx

Main groups:

- Big money for infrastructure
- Bilateral negotiations for energy supplies
- Cooperation to improve energy efficiencies (policies and practice)
- International negotiations to manage global energy (eg: China and India 'no competition clause' in energy investments – see Anu for quote in last week's FT) and Carbon markets
- International cooperation in science and technology innovation

Table A2.2: Environment: roles of main stakeholders – by required action

	Bilateral / multilateral donors	Local communities	Private sector	Governments (national / local)	Regional (ASEAN, SAARC, ...)	International (UN and others)	NGO's	Science and technology
Realise the comparative advantages of resource based economies of each country / region	Xx (research, AAA)	xx	xxx	xxx	xxx	xx	x	Xxx
Minimize damage to local communities from NR exploitation (mines, fisheries, forests)	xx	xxx	xxx	xxx	x	x	xxx	X
Involve local communities in managing and profit sharing, including access rights	xx	xxx	xxx	xxx	x	x	xxx	X
Avoid elite capture and re-invest windfall profits in other sectors	x		xx	xxx	x	x	x	
Review subsidies	xx		xx	xxx	xx	x	xx	
Strengthen environmental regulations and implementing agencies	xx	xx	xx	xxx	xxx	xx	xx	X
Improve accountability and transparency	xx	xx	xxx	xxx	xx	x	xxx	X
Disaster management and risk reduction	xx	xxx	xx	xxx	xxx	xx	xxx	Xx
Climate change adaptation	xxx	xx	x	xxx	xxx	xx	xxx	Xxx
Regional cooperation on water management and air pollution (haze)	xx	xx	Xo	xxx	xxx	xxx	xxx	xx

Main groups:

- International cooperation on environmental / economic policies / planning, including climate change adaptation
- International cooperation on community involvement
- International cooperation on environmental and disaster management
- Regional cooperation on water management and air pollution

Table A2.3: Environment– partnerships: by area for ‘urgent action’*

	Bilateral / multilateral donors	Local communities	Private sector	Governments (national / local)	Regional (ASEAN, SAARC, ...)	International (UN and others)	NGO's	Science and technology										
Watsan	Finance pilots and lesson learning (mainly bilaterals) and scale up (mainly multilaterals)	Primary stakeholder and main implementer, regulation, auto-regulation (community led NR / forest management)	Co-finance and deliver (public private partnerships)	Finance, regulation and delivery	Sharing lessons	Sharing lessons (UNICEF)	Finance, delivery, lesson learning / sharing, advocate, monitor (Wateraid, WSP, GWP, ...)	Innovation, learn and share lessons, monitor (CGIAR, government / private sector / non government organisations, ...)										
									Auto-regulate (Kyoto, certification)	Regulation (mainly) – some limited delivery	Regulation and information sharing (AFP)	Regulation (international), sharing lessons (UNFF, FAO, FLEG, ...)	Delivery, lesson learning / sharing, advocate, monitor (WWF, Global Witness, ...)					
														(Auto-) regulation (EITI, Equator principles, certification)	Regulation	Regulation and delivery (ASEAN)	Delivery, sharing lessons (OCHA, ...)	Finance, delivery; lesson learning / sharing, advocate, monitor (DEC, ...)
Markets and private sector	Delivery (response) finance pilots and lesson learning (risk reduction)	Primary stakeholder and main implementer, regulation, auto-regulation (community based conservation)	(Auto-) regulation (EITI, Equator principles, certification)	Finance, regulation and delivery	Regulation and delivery (ASEAN)	Delivery, sharing lessons (OCHA, ...)	Finance, delivery; lesson learning / sharing, advocate, monitor (DEC, ...)											
									Finance pilots and lesson learning and scale up (GEF)	Regulation and delivery (ASEAN)	Regulation, sharing lessons (UNEP, IUCN, ...)							
Disaster response and risk reduction	Delivery (response) finance pilots and lesson learning (risk reduction)	Primary stakeholder and main implementer, regulation, auto-regulation (community based conservation)	(Auto-) regulation (EITI, Equator principles, certification)	Finance, regulation and delivery	Regulation and delivery (ASEAN)	Delivery, sharing lessons (OCHA, ...)	Finance, delivery; lesson learning / sharing, advocate, monitor (DEC, ...)											
Conservation	Finance pilots and lesson learning and scale up (GEF)	Regulation and delivery (ASEAN)	Regulation, sharing lessons (UNEP, IUCN, ...)															

* Note: as defined in a paper on environment commissioned for this conference (Bass and Steele, 2006)

