

Parallel Sessions Guidance Notes for Discussions

Session 2, Parallel Group 2A: The Rising Demand for Resources and Environmental Impact

Topics for discussion

1. What policies and interventions have been most successful at maximising nature's contribution to development, and minimising degradation? - what are the respective strengths and weaknesses of Market and State?
2. What examples do we have of successful regional and international cooperation on cross-border issues, such as the management of trans-boundary river basins, natural disasters and climate change?
3. How can the international community best contribute to Asia's environmental agenda?

Background

Asia's environmental resources contribute enormously to economic growth: minerals, oil and natural gas, hydro-electricity, agriculture, forests and fisheries. Some of those are particularly important to the poor: while migration to centres of rapid growth provides opportunities for improved income, many continue to need access to land, forests and water to live.

Energy is a prerequisite to economic development. Energy shortages in Asia already impose significant losses in economic output. At the same time, demand is rising by 8 – 12 % annually. Many Asian economies are dependent on oil imports. The increased cost of oil will affect growth: an additional \$20 in oil prices above \$ 50 per barrel is expected to decrease GDP growth by 1.2%.

Rapid and intensive growth comes at a cost. Asia suffers more air pollution than other regions in the world. Unsustainable and illegal logging is rife. Water shortages are already causing political unrest and out-migration in some regions. Rising energy consumption is a major source of air pollution. Some environmental problems have cross-border implications: water, acid-rain, the regional trade in (illegal) timber and declining fish stocks. As the global economy's location for heavy industries shifts to the East, Asia's contribution to Carbon emissions and climate change is rising too.

The challenge facing Asia is to use natural wealth for growth and poverty reduction and sustain its capacity to benefit future generations.

Areas for particular attention by the State might include: capture and allocation of revenues from resource extraction; subsidies that incentivise wastage; institutional structures and incentives for private sector involvement and poor people's access to essential resources (property rights, ...); information on the state of the environment; rules to minimise depletion and pollution; transparency and accountability. There is a need for the State to manage multiple conflicting stakeholders, to reach regional and international agreements on the management of cross-border resources and to start planning for the likely impacts of climate change (floods, droughts, ...).

The private sector too has a role to play. Wood consuming industries in the West are adopting 'codes of conduct' on the trade in illegal timber. Major industries and large financial institutions have adopted due diligence and transparency procedures (EITI, Equator Principles) that seek to internalise social and environmental costs that are not included in market prices. The Clean Development Mechanism provides a framework for carbon trading that should help reduce global greenhouse gas emissions.

Significant investments are required to procure the energy needed for growth, sustained water supply and environmental management. Finance for science and innovation is essential to increase resource use efficiency in agriculture and industry, to find alternative energy sources and to reduce the uncertainties associated with natural resource assessments and future scenarios of resource utilisation and degradation.

Session 2, Parallel Group 2B: Fostering Private Sector Development

Topics for discussion

1. How do you maintain momentum in implementing Investment Climate reform for the benefit of small, large and rural businesses?
2. What role can banks and governments play in promoting microfinance?
3. How can governments work with the private sector in making markets work for poor people? What is the role of donors?

Background

The private sector has been a dominant force in Asia's successful economic growth and poverty reduction. If Asia has to maintain this growth, the role of the private sector in promoting investment and growth, creating jobs and decent employment and in ensuring broader participation in this growth is critical.

If private sector is to contribute to growth and distribution of the benefits of growth, it needs the right investment climate. Investment climate is important to all firms, irrespective of size. The strongest potential for improvements to growth and poverty in Asia may come from encouraging investment in infrastructure and in reducing the regulatory burden which imposes unnecessary costs on business. It is also important that interventions be selected to facilitate pro-poor growth. The literature on investment climate reform is extensive and it may be worthwhile to focus our discussion on "implementation".

Financial systems are a part of investment climate. A well functioning financial sector encourages investment by mobilising savings as well as permitting investors to manage risk. The financial sector also plays a crucial role in poverty reduction. It has an indirect impact through the positive effect on growth. It can also have a more direct impact to the extent that it results in increased access to financial services for the poor. Access to a savings account, to credit, to insurance and to remittances also reduces vulnerability by allowing households to better manage fluctuations in income and enables the poor to invest in essential services like health and education.

For its part the private sector needs to innovate and develop products and services which are targeted towards the several billion people living at the "base of the pyramid" which helps them participate in growth.

Lastly, governments, donors and the private sector need to work together to sustain this growth. What approaches can donors adopt to support a sound investment climate which will promote broad based growth?

Note: DFID supported The Commonwealth Business Council to organise a pre- event for Asia 2015 titled Business Action In Asia: Building Partnerships For Sustained Economic Development on February 1 – 2 , 2006. The event was designed to get the private sector's inputs and views on sustaining growth and development in Asia. Key Recommendations from the event are annexed to this note.

Annex: Session 2, Parallel Group 2B

'Business Action in Asia: Building Partnerships for Sustained Economic Development'

Key Recommendations

This is a summary of recommendations from the "Business Action in Asia" conference held in London on 1-2 February 2006. The event, organised by the **Commonwealth Business Council (CBC) with support from the Department for International Development, (DFID) UK**, involved 225 participants from 21 countries drawn mainly from business. The objective of the event was to work towards "Building Partnerships for Sustained Economic Development", and in line with that aim the conference identified actions needed to sustain Asia's remarkable growth, by Governments and business working together.

1] A Business Asia Network for Sustainable Development should be set up to share information and experience and carry forward an action programme in the key areas of strengthening the investment climate, infrastructure development, support for SMEs, and financial services as products for the poor.

2] Sustaining Growth and attracting Investment: **Governments should continue economic reforms aimed at sustainable growth, job and wealth creation and adopt policies to promote inclusiveness, private-public partnerships and wider access to low cost products and services for the poor.**

3] Continued Implementation of Investment Climate Reform: In order to enable the private sector to play a full role in economic growth, the investment climate in Asian countries should be strengthened to reduce the cost of doing business, and create a competitive market environment supported by transparent and balanced regulation and zero tolerance of corruption.

4] Trade Liberalisation: Given the great gains and prospects through trade liberalisation in Asia, Governments should continue trade liberalisation reforms, build stronger trade partnerships between Asian countries, and work for a conclusion of the Doha negotiations in 2006 on terms that give weight to the interests of developing and least developed countries.

5] Microfinance as a driver of growth: Governments should take steps to encourage the growth of micro-finance institutions to benefit even more poor people in Asia and support them with appropriate legislative and regulatory backing. The private sector should share its expertise to leverage technology for offering low cost services and wide-ranging products for the poor.

6] Greater support for SME Development: Given the crucial role of SMEs in economic development in Asia, accounting for about 40% of GDP in most countries, Governments should adopt policy measures to support SMEs, increase their access to finance and create an appropriate regulatory framework that does not overburden small businesses. The private sector for its part should create more partnerships between large and small enterprises.

7] Address the Infrastructure Deficit: **In order to develop infrastructure and provide wider access to rural populations and the poor, Governments should take steps to facilitate greater private sector involvement through innovative private-public partnerships.**

A full text of the report with detailed recommendations is available on www.asia2015conference.org

Session 2, Parallel Group 2C: Closing the Infrastructure Gap

Topics for discussion

1. What interventions are necessary to meet the infrastructure needs of the poor in terms of transport, communications, energy, water and sanitation?
2. What policies have been successful in increasing infrastructure financing and meeting operating and maintenance requirements?
3. How can we optimise involvement of the private sector in infrastructure financing, delivery and management?
4. What is needed to promote the provision of cross-border infrastructure to support regional integration?

Background

Infrastructure plays a crucial role in promoting growth and poverty reduction. Improved infrastructure services benefit the poor both directly as users of services and indirectly through encouraging employment and investment. However, the economic characteristics of infrastructure with its high initial costs, network features and recurrent costs requirements present challenges in ensuring and sustaining appropriate levels of investment, both for the private and the public sectors.

Across much of Asia there has been significant underinvestment in infrastructure relative to its economic returns, and current rates of infrastructure investment in many countries are well below those required for boosting economic growth. The high hopes for private infrastructure investment in the 1990s have not been realised despite some important successes. There has been limited progress in implementing key institutional and policy reforms (including rationalisation of subsidy policies) which are important for attracting private investment, and many Asian countries lag well behind Latin America and Eastern Europe in this regard.

Among developing Asian countries there is a high economic and poverty reduction impact from rural roads investment, particularly when complemented by other forms of public expenditure, notably on education. Improvements in water and sanitation services have a strong impact on health and welfare indicators. However, in general South Asian countries lag well behind East Asian on most indicators of infrastructure access, and growth performance has been much weaker. The rapid pace of urbanisation presents a major challenge across Asia.

Improvement in the quality and quantity of infrastructure investment and the poverty impact of the services provided depends upon:

- Increasing infrastructure investment as a proportion of GDP, in a context where many countries face continuing problems of fiscal weakness and many other competing priorities for public expenditure and where even substantial increases in private investment will still leave much of the infrastructure requirement dependent on public financing.
- Targeting investments and public expenditure on infrastructure that has the greatest impact in enabling the poor and disadvantaged to share in the benefits of growth as well as boosting overall growth performance. This implies both spatial targeting and the timing and integration of different investments such as for roads, and access to education, water and sanitation services.

- Reconciling the need for effective overall planning, targeting and coordination of infrastructure networks with responsiveness to local needs, particularly in the context of decentralization.
- Building the capacity at all levels to optimise the roles of public and private provision of infrastructure services, including access to local capital markets and service providers, and the creditworthiness of client organisations.
- Creating a policy and regulatory environment that favours predictable and transparent decision-making with a view to establishing the political acceptability of private investment, attracting such private investment, and managing the risks for investors and clients alike, both at national and local levels.
- Increasing competition for service provision where this is feasible and establishing independent and accountable mechanisms of regulation.
- Strengthening accountability and addressing corruption through improved public procurement systems, judicial and administrative reform processes, building high-level political commitment, the involvement of civil society organisations and local communities, and effective international cooperation.
- Ensuring that where subsidies are used, they are transparent and well-targeted on the poor, and minimise opportunities for corruption and reinforce good financial disciplines.
- Sectorally, some of the greatest financing challenges are faced in the water and sanitation sector, rural roads and electricity transmission, where an important public role may continue to be required.

Recognising that official development assistance is likely to remain small in relation to total infrastructure investment needs in Asian countries, and that increasing aid can only play a limited part in financing Asia's infrastructure requirements, apart from in some of the smaller and poorer countries, the challenge is for ODA to be well-designed and strategically resourced to build partnerships and capacity to address these multiple, inter-related issues.

Session 3, Parallel Group 3A: Regional Disparities, Poverty and Exclusion

Topics for discussion

1. What policies and interventions have been most effective in ensuring that lagging regions and poor communities benefit from growth?
2. What policies and interventions have been most successful in reducing social exclusion and why?
3. Which level of government – central, state, regional, local – has been most effective in reducing exclusion and poverty, and why?
4. What are the practical next steps for partnerships?

Background

There has been rapid economic growth across Asia, which has enabled impressive poverty reduction. But despite this overall success, there are regions and communities which are not benefiting from this process.

Across Asia, growth is located in particular places, especially major urban centres, linked to the expansion of services and manufacturing, and has benefited particular groups. That growth however will only be sustained if towns and cities maintain the enabling conditions -administrative structures, physical facilities, infrastructure, a skilled and healthy workforce - to attract future investment. Conversely, some areas have become persistent under performers (lagging regions) disconnected from the growth process altogether. The challenge for governments are two fold – to sustain future growth, primarily in cities and towns, while at the same time supporting investment strategies to connect lagging regions and their populations to potential growth opportunities.

Many people are still excluded from participating in the Asia success story by virtue of their gender, ethnicity, caste, or religion. Alongside this, the geographic distribution of poor people, and the nature of poverty and exclusion in particular places, has been affected by the pattern of growth. In lagging regions, those who are able, migrate; those left behind, because they are either unable or unwilling to migrate, can be trapped in a chronic cycle of poverty, in part, but not wholly, supported by remittance flows from migrant family members.

In addition, at the local level, within fast growing cities and towns, increasing numbers of poor and marginalised people live in slums alongside the leading sectors of global capital. While they provide the informal labour which drives the economy, their contribution is often overlooked, and their right to services and shelter is ignored. Evidence is emerging that high levels of income inequality – between regions, and between groups with shared social characteristics, such as gender and ethnicity - is bad for growth and social cohesion. **The challenge for governments is: (a) how to protect the most vulnerable in lagging regions, and connect those regions and their populations to new growth opportunities, while, (b) improving the conditions of the urban and rural poor, and specific excluded groups, living within prosperous areas.**

Session 3, Parallel Group 3B: Human Development Summary

Topics for discussion

1. How can countries finance basic service delivery (health, education, water, sanitation) to provide access to all? (Is there a role for cash transfers or other specific mechanisms for poor and excluded groups?)
2. How well do governments (at different levels) ensure quality, equity and impact of services delivered by both state and non-state providers?
3. How best can states and service providers be accountable to their service users and communities?
4. Do Asian countries face similar or different problems and how can Asian countries learn from each other? (And what mechanisms can be put in place to facilitate this?)
5. If service delivery reform is so political, what role can donors play?

Background

1. Development is about putting people first and improving their lives: better health, better education for children, better access to services that are affordable to use (water, health, education). At the same time, increased investment in human capital now will trigger and sustain growth. However, high levels of spend on health care by poor people can increase vulnerability and slow the rate of poverty reduction brought about by economic growth.
2. A number of countries in Asia are still not providing basic services to their populations. And even in those countries where there is universal access, services are often of poor quality and funds are not used efficiently. Services are not delivering the expected improvements to peoples' lives, or helping to prevent the transmission of poverty from one generation to the next.
3. Current expenditure on health, education, water and sanitation in many countries in Asia is not enough to deliver basic services to all. Current funds are often not spent efficiently, or allocated according to need or cost-effectiveness. Whereas some countries have achieved remarkable progress on universal access to services and on health and education indicators with relatively low levels of spend, others have made little progress with higher spend. Countries need a financing strategy to provide predictable funding for basic services, and ensure it is spent efficiently to deliver high quality services, using state and non-state providers.
4. Currently around 60% of spend on health, for instance, in Asia is not from the public sector. Non-state provision is often unplanned and lacks effective state regulation. Governments must ensure public goods (e.g. detection and control of infectious diseases) and regulate all providers of services and commodities to ensure quality, safety and equity. Non-state providers can innovate e.g. in getting girls into school. Increasingly governments and non-state providers of services are working more closely together. Users of services and communities should be able to hold the providers and the state to account.
5. Different policies are needed in different countries, to address the challenges, and ensure equitable access to services. Do we have sufficient knowledge of the impact of different approaches to service delivery, including its decentralisation to different tiers of government? What is the role of donor partnership in ensuring access to basic services for all?

Session 3, Parallel Group 3C: Asian-led Strategies for Improving Governance and the Effectiveness of State Institutions

Topics for discussion

1. What factors make a state effective in reducing poverty?
2. What are the challenges and lessons from Asia for improving governance and tackling corruption in order to promote growth, and reduce poverty and inequality?
3. What is the role of government, civil society, the private sector, donors and regional institutions in supporting governance reforms?

Background

1. The state is central to Asian-led strategies for promoting growth and reducing poverty. A supportive policy environment which fosters trade and investment is critical for the economic success of many countries in the region. Public investment in infrastructure and human capital has played an important role in shaping development prospects. Sustaining growth requires strategies for managing the adverse environmental consequences of rapid industrialisation and growing inequality.
2. No single model of governance is associated with positive growth and poverty outcomes across Asia. Sustained growth and poverty reduction have taken place under a range of different governance regimes in Asia; there has been progress both in centralised East Asian polities and democratic governments in South Asia. Least progress has been achieved by states characterised by political instability and authoritarian rule. Patterns of governance in successful Asian economies are changing on account of economic liberalisation, globalisation and demands for better governance voiced by citizens.
3. Capable states in Asia have skilled and motivated public bureaucracies. The public sector is a major source of formal employment but there are growing opportunities in the private sector. Privatisation and public sector reform are changing the focus of the public service from administration to management and regulation.
4. Governance reform priorities differ between the rich and poor, and between state officials and entrepreneurs. For the poor these priorities include better service-delivery, reduced leakages in targeted anti-poverty programmes, improved access to justice, regulatory support to the informal and unorganised sectors of the economy, better support in coping with disasters, and reduction of income erosion threats.
5. The continued centrality of state institutions in many Asian countries also poses governance challenges. Growing recognition that failure to address pressing governance challenges may retard growth and deepen inequality has spurred many Asian governments into taking action to tackle corruption and improve state effectiveness.

6. Committed politicians in Asia have devised a range of initiatives to improve the accountability, effectiveness and performance of government institutions. These include civil service reforms, decentralisation, measures to combat corruption, e-governance, and financial management reforms. Success in improving systems, building incentives, strengthening institutions, and strengthening capacity creates a strong basis for more enduring institutional change.
7. In addition to the state, there is a range of other stakeholders in Asian development capable of playing an important role. Non-state actors, such as civil society and the private sector, are key partners well placed to make a significant contribution to tackling patterns of inequality and improving governance.
8. Asian countries can share experiences of governance reforms that have successfully strengthened state capacities and enabled government agencies to broaden citizen participation and foster accountability. Regional organisations such as SAARC and ASEAN can play a role in promoting successful models of governance and public sector reform which have had positive growth and poverty reduction outcomes. Aid donors can support governance reform efforts initiated by Asian governments and society.

Session 4: Where Next? Setting the Agenda for Partnerships to 2015

Topics for discussion

1. What are our shared priorities for partnerships to build on Asia's successes?
2. Next steps: how do we take these partnerships forward?

Background

The problems of poverty and social exclusion are so great that they require efforts both at individual country level and collaboration at regional and international levels, by governments and many other actors. There is also a need for partnerships to provide global public goods and tackle the problems of climate change, natural resource depletion, financial volatility, security, infectious disease control and research and development on affordable drugs and other technologies. These require joint action between Asian countries, development partners, and multilateral actors such as the UN, the Asian Development Bank and the World Bank. Effective arrangements for managing major global threats depend heavily on Asia and its partners and widening the terms of engagement beyond aid.

The changing role of development assistance

Asia is not aid dependent. Countries' own resources and policy choices are far more important than aid flows for poverty reduction, but aid plays a valuable role. Global aid is expected to double by 2010 following commitments at the 2005 G8 Summit, to help achieve the MDGs. What are the priorities for how and where aid is focused in Asia? How will aid effectiveness be improved and the commitments made last year in Paris, on predictable aid, which is aligned to country priorities and systems, and harmonised among donors, be delivered?

Coherent policies to promote development

Governments need to adopt consistent and coherent approaches to promoting development, domestically and on global issues. Thus countries that provide development assistance should strive to avoid their trade, migration, debt and other policies from undermining the development they seek to support. All countries can benefit from greater internal policy coherence across government to promote a broadly-defined national interest that recognises the mutual benefits flowing from one another's development. Exchanging experiences of what works is also vitally important, through peer review, official exchange visits and task teams across countries on key issues. What more needs to be done to improve the identification and sharing of good practice?

Regional and multilateral cooperation

Asian governments are placing greater emphasis on cooperation and mutual assistance. Asia's commitment to regionalism is deepening, in both political and economic arenas, with regional institutions like ASEAN and SAARC becoming more influential, and taking concerted action on trade, finance, migration and investment. Do existing mechanisms to promote cooperation adequately serve the emerging range of concerns? What scope is there for intensifying bilateral and multilateral partnerships across the region? Beyond the region, are Asian perspectives and voices heard enough in the international community?

Business and civil society

Partnerships between business, government and civil society contribute to growth and poverty reduction through, for example, investment in infrastructure, industry and financial services, improved standards for managing environmental and social risks, generating decent employment conditions and socially responsible production and trade. Civil society engagement can contribute

to poverty reduction and improved governance by mobilising demand for better public services, involving poor people in decision-making processes, and by improving the accountability of governments and businesses. What are the priorities for future partnerships with business and civil society?