

**THE GROWTH
CONUNDRUM**

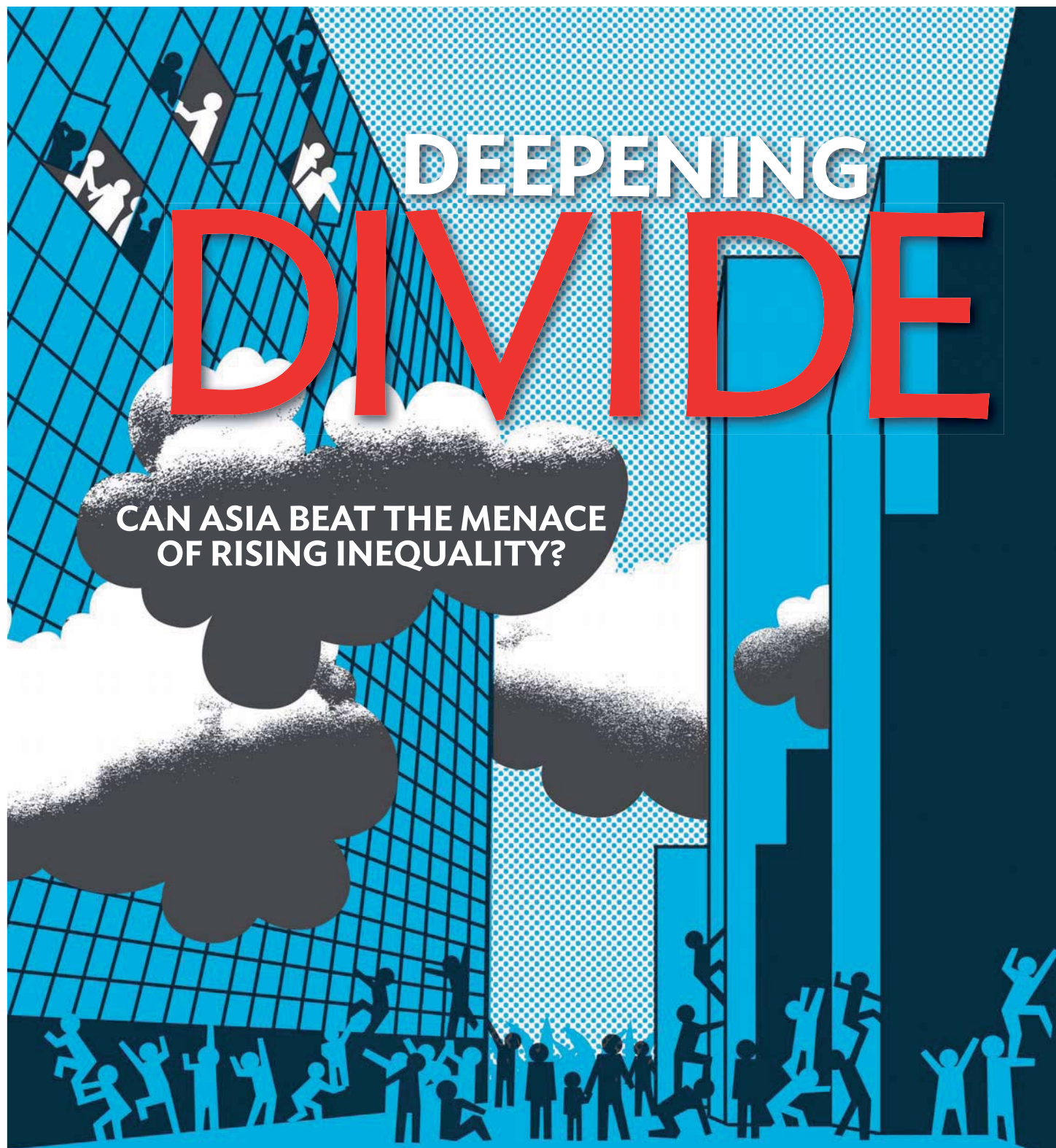
Wealth gaps
amid growth
in three giant
economies

**“THIS IS NO
DOUBT A
LONG-DRAWN
BATTLE”**

Q&A with India’s
Finance Minister
P. Chidambaram

**RAISING
CAMBODIA**

Winning the
war against
child mortality



DEEPENING

DIVIDE

**CAN ASIA BEAT THE MENACE
OF RISING INEQUALITY?**



I'm a development worker

Meet Moyna. Living in Dhaka's Kunipara slum, Moyna is an enthusiast member of BRAC's health and nutrition programme operating in her community. She covers up to 250 households and provides a range of basic health services and products at affordable prices to her neighbours. BRAC sells its birthing kit to Moyna for 42 cents, which she re-sells for about 52 cents, creating a small income stream for her and, a low-tech solution to sanitary home births. Saline and iron tablets are the typical top sellers.

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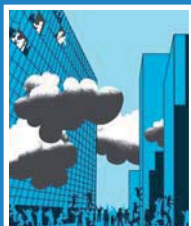
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ASIA'S INEQUALITY CHALLENGE



BENEATH THE GLOSS of Asia's newfound prosperity lies an unsettling reality. Rising inequality has denied the benefits of Asia's economic growth to many millions of its citizens. The problem is worsening as the region's rich get richer much faster than the poor, who miss out on the income, education, and health care they need to lead fulfilling lives.

In this issue's *Special Report*, *Development Asia* examines Asia's widening inequality from many different perspectives. We look at the role of globalization in producing inequality, and consider the disputed relationship between inequality and economic growth.

Asia isn't the only region suffering from a wealth gap, but unlike others it has failed so far to narrow the divide. Most of its large economies have shown rising income inequality since the 1990s, and rural poverty is outpacing urban poverty across much of the continent. If left unchecked, the consequences of this trend could be dire.

Palaniappan Chidambaram, the Government of India Finance Minister, provides unique insights into India's experience with inequality in a fascinating question-and-answer session. In a forthright opinion piece, former World Bank chief economist Justin Yifu Lin delivers his prescription for tackling

inequality in the People's Republic of China (PRC).

We discuss how some countries have managed to sidestep the inequality trap, and reveal how others like Cambodia have made progress in curbing the symptoms of inequality—in this case child mortality.

Rounding out our cover package is a central question: What can be done about inequality? While some characterize inequality as a phase on the path to prosperity, an emerging consensus suggests otherwise and highlights the importance of inclusive, jobs-rich growth.

In our *Features* section, we venture into Asia's sprawling slums for a close-up look at how hope—and economies—can take root amid the squalor. Many slums are now vital hubs in the broader economy of their cities, a positive step but one that complicates plans for slum redevelopment.

Closing this issue is *Black & White*, a new section that provides a space for some of Asia's leading photographers to display their work on a specific development project or theme. In this issue, Filipino photographer Veejay Villafranca spent time with the garbage-pickers of Manila's Smokey Mountain waste dump. Veejay's powerful image, on page 56, and the story of a project trying to improve the lives of the pickers, suggests it was time well spent.

In pictures and words, I'm sure you'll find that this issue of *Development Asia* sheds new light on the struggles—and solutions—that are a daily fact of life for many people in Asia and the Pacific.

Ann Quon
PUBLISHER

PUBLISHER

Ann Quon

MANAGING EDITOR

Andrew Perrin

SENIOR EDITOR

John Larkin

EDITORIAL ADVISOR

Juzhong Zhuang

ASSOCIATE EDITOR

Jenina Alli

PRODUCTION MANAGER

Miguel Paulino

COPY EDITORS

Ma. Priscila del Rosario

Tuesday Soriano

DESIGN

Cleone Baradas

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Department of External Relations
Asian Development Bank
6 ADB Avenue, Mandaluyong City
1550 Metro Manila, Philippines
editor@development.asia
www.adb.org

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CONTRIBUTORS



PHILIP BOWRING

is based in Hong Kong, China and is one of Asia's best-

known columnists. Over 40 years, he has written on regional financial and political issues for leading international publications including the *International Herald Tribune* and the *Wall Street Journal Asia*. He is a former editor of the weekly *Far Eastern Economic Review* and a founder of www.asiasentinel.com



NIDHI DUTT

is a journalist based in Jakarta, Indonesia. She specializes in emerging

markets and development and reports for a variety of international news outlets. Nidhi was previously the BBC's Mumbai correspondent and presenter of India Business Report. She has also covered India for the Australian Broadcasting Corporation's Australia Network, reporting for television as well as radio and online.



JUSTIN YIFU LIN

is honorary dean and professor of National School of Development at Peking

University. From 2008 to 2012, he served as chief economist and senior vice president of the World Bank. His many books include *Demystifying the Chinese Economy*, *The Quest for Prosperity*, and *New Structural Economics*. He is a corresponding fellow of British Academy and a fellow of the World Academy of Sciences for the Developing World.

SITUATION REPORT

PEAK PRESSURE

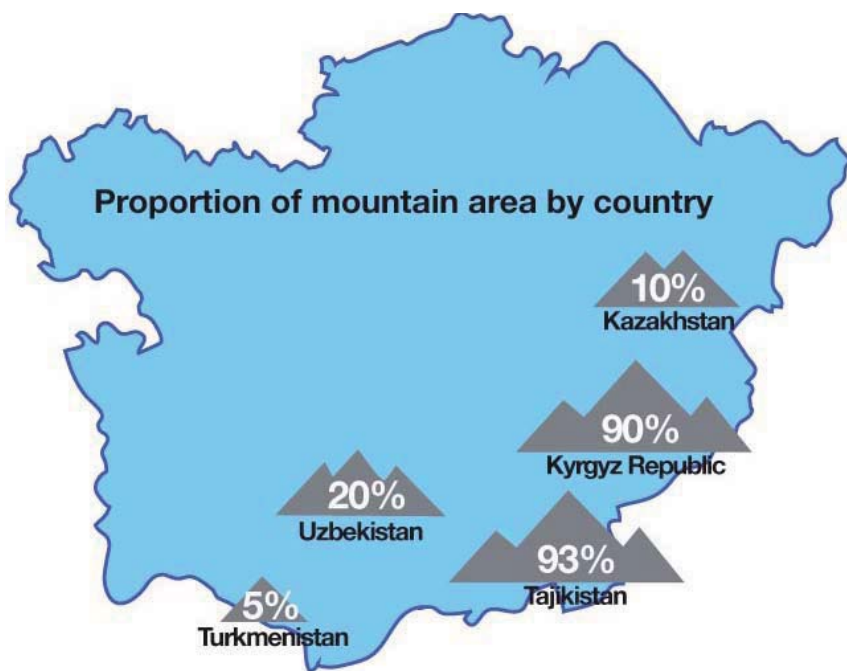
Central Asia's vast mountain ranges can play a decisive role in the region's future prosperity if looming challenges are addressed, according to a new report on sustainable development in mountain communities.

There are various economic and environmental challenges that face Central Asian nations emerging from decades of Soviet control, says *Sustainable Mountain Development in Central Asia*, a report coordinated by the University of Central Asia in Bishkek, Kyrgyz Republic.

The report calls for the creation of a "mountain countries" group under United Nations (UN) auspices, and an exchange of external debt for equivalent investments in sustainable development, as first steps to tackle looming problems.

Peaks spanning Central Asia provide 90% of the region's water supply and help modulate climate across a wide area, notes the report.

"But global warming is slowly decimating mountain glaciers, affecting snow reserves, and at the same time increasing the water requirements of basic agricultural crops," it says. "The downstream and lowland



water resource disruptions challenge governments and, in some cases, international relations."

The report, jointly produced by nongovernment organizations and research organizations, says the challenges also provide opportunities for Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan.

Lowland countries affected by climate change should account for mountain ecosystems in their planning through afforestation and sustainable land use. Small-scale water management

solutions should be promoted, and pricing systems applied for services and resources provided by mountain areas to downstream markets.

The report highlights opportunities for better biodiversity protection through sustainable livestock herding, as well as economic gains from community-based tourism, responsible mining, and hydropower.

Strategies for mountain development should be linked to broader agreements on trade, economic development, conflict resolution, and resource management, it says. ■



TEA TEAM

Leading Asian tea producers are spearheading a new global organization to promote the beverage and stabilize global tea prices. The International Tea Producers Forum was formed in Colombo, Sri Lanka, earlier this year. Sri Lanka will act as the group's first secretariat as members attempt to forge unity among tea producers for the first time in decades.

Sri Lanka joins India, Indonesia, Kenya, Malawi, and Rwanda as founding members. Together, they produce 1.9 billion kilograms of tea a year, according to Reuters news service. They face common challenges including labor

shortages, the impact of climate change, and a need for better agricultural practices.

"What we have just achieved is a historic landmark in the tea industry," Sri Lanka's Plantations Minister Mahinda Samarasinghe told Agence France-Press. He said production quotas were not on the agenda, but maintaining price stability and product quality was a priority.

Last year, the Food and Agriculture Organization of the United Nations predicted black tea consumption to increase by 1.8% yearly until 2021, with prices rising marginally. ■



to more than double to 439 million, while India's will likely triple to 323 million. Bangladesh's elderly will rise from 7% to 23% of the population by 2050, according to the United Nations Population Fund (UNFPA). Philip Guest, UNFPA's Bangkok-based assistant director for South and Southeast Asia, told IRIN news service that aging demographics will severely affect developing countries. Many workers in these countries aren't covered by social security, leaving them without income later in life. Chronic illnesses like dementia and cancer will become more common as people live longer but not necessarily healthier lives.

Footing the bill to support the vulnerable aged will fall on governments, presenting them with grave fiscal challenges. In a 2009 report, *Aging in Asia*, the Asian Development Bank (ADB) outlined broader impacts, including slower economic growth and lower savings.

UNESCAP recommends more comprehensive health care for older people. ADB calls for better pension schemes, funded perhaps by long-term government bonds. It says labor shortages could be blunted if barriers to work for women are lowered, and the mandatory retirement age increased.

There might even be a silver lining, notes ADB, as developing countries with younger populations export labor to wealthier aging societies. ■

A GRAYING ASIA

By 2050, one in four people in Asia will be older than 60, as the gray population triples to more than 1.2 billion.

In East and Northeast Asia, the rise of the older generation will be even more dramatic, with one in three people aged over 60. Two-thirds of Asia's elderly will be women.

"This demographic transformation is unmatched in scale anywhere else in the world," says the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP).

Falling mortality and fertility lie behind Asia's age dilemma. Already home to 55% of the world's elderly population, Asia's aging demographic has huge repercussions for countries like the People's Republic of China (PRC) and India, where most of the aging will take place. UNESCAP expects the PRC's over-60 population

Humanity has traditionally put its faith in advances of technology to resolve problems of resource scarcities. However, there is now a growing realization that there may be no easy alternatives for some resources, particularly environmental resources. Resource efficiency is, thus, a necessary condition for sustainable development, and a key element of the economic pillar of sustainability.

-India Prime Minister Manmohan Singh, Jan. 2013

The success of the MDGs means that there is a lot of interest in expanding them to include a broader set of issues. But many of the potential new goals don't have unanimous support, and adding many new goals, or goals that are not easily measurable, may sap momentum.

-Bill Gates, Co-Chair of Bill & Melinda Gates Foundation, Jan. 2013

The global population has increased by 2 billion in less than 3 decades, surpassing 7 billion last year. Another 2 billion is estimated to add to this mark by 2050. Such a scale of population growth will impact on our ability to provide food, energy, and other basic services.

-Indonesian President Susilo Bambang Yudhoyono, Dec. 2012

ALL FISHED OUT

Several Pacific island nations have joined forces in a bid to stop overfishing of tuna amid a dramatic decline in world tuna stocks.

Global tuna demand has soared, as the fish proves increasingly popular with consumers in developed countries. A recent study by the Pew Environment Group found that the population of Pacific bluefin had plunged by 96% in recent decades.

This has pushed prices up and prompted eight Pacific states to launch a joint crackdown, according to Public Radio International's The World news service. The states— Kiribati, the Federated



States of Micronesia, Marshall Islands, Nauru, Palau, Papua New Guinea, Solomon Islands, and Tuvalu—seek commitments by fishing fleets not to operate in open seas between the island nations.

In return, boats will be allowed to fish in the territorial waters of each state. Straddling tuna grounds worth around \$5 billion, the nations hope the fleets abide by the honor system as they lack the means to enforce the ban. ■

ON THE WEB

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Many people want to make a positive difference, but don't know where to start. Enter Join My Village, an online initiative in partnership with CARE International. Join My Village lets internet users help the needy simply by surfing the web. For every link clicked on joinmyvillage.com, every video watched or shared, every "Like" of its Facebook page, and every retweet from its Twitter account, a donation is made directly



to CARE by corporate sponsors General Mills and Merck. Where you click determines how much is donated. Watching a video for instance, is worth \$1, while sharing a video, \$3. Individual donations will be matched by General Mills and Merck. The proceeds help provide education, health services, and jobs for girls in Malawi and India. The two companies have pledged to donate a total of \$1.6 million by 31 December 2013. ■



VOICE FOR THE ELDERLY www.helpage.org

It's easy to forget that the elderly are often among the most needy. Help Age reminds us with its online database on efforts to help senior citizens worldwide overcome poverty and discrimination. It works with 90 government and nongovernment

organizations in 60 countries. In Asia, it has 14 partner countries including India and Sri Lanka, which have their own Help Age websites. Helpage.com features project details and updates on relevant issues including health, civil rights, social protection, and employment. Help Age's mission is to influence governments and international institutions to focus on older people. It says it has helped 2.5 million aged citizens obtain social protection, and 350,000 to get better health care. The website has infographics and data on the rising number of aged people as a percentage of the global population, and statistics on issues affecting their daily lives. There are also "report cards" on 195 countries that monitor their track records on policies directly impacting elderly citizens. ■

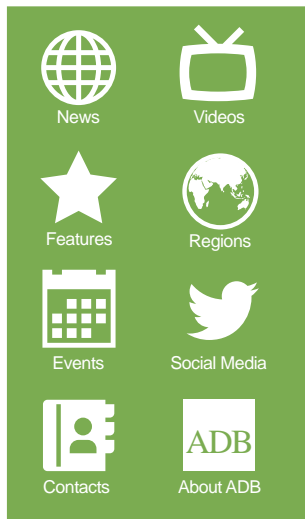


MICROFINANCE GOES ONLINE www.kiva.org

Through its website and partnerships with microfinance institutions in five continents, nonprofit organization Kiva grants interest-free loans to people who can't access traditional banking. Its clients are mostly people seeking funding for small businesses. Kiva aggregates loans from individual

lenders—all users of its website—to fund individual loans from multiple sources. Kiva has a six-step process: 1. The borrower requests a loan from an authorized Kiva field partner (usually an affiliate microfinance institution or nonprofit organization). 2. The field partner loans to the borrower, aiming to minimize delays in dispensing the funds. 3. The field partner sends the loan request to Kiva, where it is reviewed and published online. 4. Site users who chose to lend through Kiva fund the loan request. The funds are sent to the field partner. 5. The borrower repays the field partner, which then sends the money to Kiva. 6. Kiva repays the individual lenders. Kiva's website gives its users their choice of borrowers, who each have a profile detailing the loan's purpose, amount, and the repayment schedule. ■

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SPECIAL REPORT: INEQUALITY

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The Wealth

GAP

Inequality is hitting alarming highs in Asia as the fruits of growth skew to the rich

By John Larkin

MYLA IS ONE OF THE MANY faces of worsening inequality in Asia. Trafficked at age 13 into a life of misery as a domestic worker for abusive employers, she is trying to rebuild her life.

The streets outside the Manila shelter where she now lives are jammed with shiny SUVs and new apartments—just some of the rewards a growing economy offers those with the right education and skills.

Myla, not her real name, sacrificed her dreams of attending school to become a child laborer. “I was about to enrol but we didn’t have money for school supplies, so I made way for my younger brother,” says the 17-year-old. “I had to provide for the family.”

Asia’s flourishing economies have lifted millions out of poverty in recent decades. But that achievement masks

a grim reality. The gap between Asia’s haves and have-nots is growing as globalization delivers prosperity to some, while others like Myla are denied the opportunities they need to lead fulfilling lives.

Other developing regions have wider gaps between rich and poor. Gini coefficients, a common measure of income inequality, show that Sub-Saharan Africa and Latin America and the Caribbean all have higher levels of inequality than Asia. However, many countries in Latin America and the Caribbean have seen Gini coefficients decline in recent years.

But Asia has failed to keep pace when it comes to reducing inequality. A recent Asian Development Bank (ADB) report notes that 11 of 28 Asian economies—82% of the region’s 2010 population—showed rising income

“Rising inequality in developing Asia is closely associated with very rapid increases in the very top income groups—that is, the rich are getting richer much faster.” —**Asian Development Outlook 2012**

inequality through the 1990s and 2000s.

Higher Gini coefficients denote greater inequality. Over nearly 2 decades from the early 1990s, the Gini coefficient of developing Asia as a single unit, based on per capita consumption expenditure, increased from 39 to 46. The Gini coefficient jumped from 32 to 43 in the People’s Republic of China (PRC), 33 to 37 in India, and 29 to 39 in Indonesia.

“Inequality has risen despite aggregate economic growth and poverty reduction,” says Peter Warr, a professor of agricultural economics at the Australian National University in Canberra. “The poor have become better off in most countries, but the rich have become better off at an even faster rate.”

WHAT IS INEQUALITY? A simple definition characterizes it as unequal access to income and consequently to good quality education, health care, sanitation, and other building blocks of a successful life (see *Defining Inequality*).

Increasingly across Asia, access to a decent wage and the social benefits it can bring depends on your skills, location, and gender. These disparities can occur between countries, but are particularly troublesome for governments when they occur in the same region, or between different regions of the same country, as they can foster social and political instability.

“It is a challenging issue to the governments of every country,” says Haoming Liu, a labor economist at the National University of Singapore. He

adds that weak protection of workers and an increasing share of national income that goes to owners of capital “make it even more challenging for Asian countries.”

The problem is compounded by the fact that inequality has different causes and forms in each country, which sometimes overlap.

Moreover, degrees of inequality vary across the region. Many of the economies surveyed by ADB showed declining Gini coefficients, though these were often smaller economies subject to shocks and rapid recoveries.

Larger economies enjoying strong gross domestic product (GDP) growth often showed rising inequality, with income gaps at the heart of the problem.

Unequal earning power occurs when those at the top of the income scale earn an increasingly larger share of the income pool than those at the bottom.

India, for example, has seen its earnings gap widen along with strong economic growth. In the PRC, turbo-charged economic growth has padded some pay packets more than others.

“Rising inequality in developing Asia is closely associated with very rapid increases in the very top income groups,” says ADB’s *Asian Development Outlook 2012*. “That is, the rich are getting richer much faster.”

The rich are also getting better education for their children, cleaner water, more reliable electricity, better access to immunizations, and access to health care at quality facilities to keep themselves and their families healthy.

The deprivation is keenly felt in developing countries where the poor often miss out on public services.

“The rest, including not only the poor but [also] the vast majority of the population, don’t have access to credit, schooling, the courts, and rule of law that would enable them to be productive,” says Nancy Birdsall, president of the Center for Global Development in Washington, in reference to India.

Many poor live in remote rural areas where low income is only one of many problems. The ratio of rural poverty to urban poverty worsened in 18 of the region’s economies between 1990 and 2010, according to ADB’s *Framework of Inclusive Growth Indicators 2012*.

The imbalance is especially pronounced in the PRC, where the rural–urban income gap accounts for nearly half of total inequality. Poverty has been cut significantly in the PRC but inequality is rising, leaving people less impoverished but also less equal.

“This kind of rising inequality in the PRC, India, and Indonesia shows that the economic growth process has not been sufficiently inclusive,” says Juzhong Zhuang, ADB’s deputy chief economist. “Growth is necessary, but growth alone is not enough.”

THE BENEFITS OF economic growth are often diverted from those who need it most by inequalities of income, location, and gender.

The deprivation is acute in access to education and health care. According to household surveys, school-age children from the poorest households in some parts of Asia are three to five

DEFINING INEQUALITY

Settling on a definition has clarified the issues at stake

Inequality is inherent in all economic systems. Some people are likely to have more money than others. But at what point does this inequality become a negative or destructive element in a society?

In a landmark 1998 study, *Equality of Opportunity*, Yale University professor and political scientist John Roemer set the stage for the discussion of inequality that continues today in Asia and around the world. His study, which presented one of the first algorithms to examine societal inequality, distinguished between inequalities based on effort versus those arising from personal circumstances.

In this line of thinking, there is an acceptable and perhaps even an ethical level of inequality based on individual effort. Those who work harder have higher incomes and can acquire greater benefits than those who exert less effort. Rewarding hard work with increased income and benefits is desirable in order to increase productivity and economic growth.

The other form of inequality—associated with opportunity and fairness—is illustrated by an example in Roemer's study. He cites an instance of two low-income individuals. One was given a good education and health care but did not work hard and ended up with a low income. The other worked hard but did not have a good education or adequate health care and therefore also ended up with a low income. Ensuring equal treatment for the second individual is the primary focus of policy makers concerned with inequality.

The distinction between lack of opportunity and inadequate effort is complex and contested. Is this person poor because of a societal bias or is he poor because he did not want to work hard? Agreement isn't expected anytime soon among economists and policy makers on a definitive way to

measure poverty's links with effort and opportunity.

But placing inequality in the context of effort and opportunity does clarify the policy implications. It underscores the importance of delivering educational opportunities and good health care to everyone regardless of gender, race, ethnicity, or any other characteristics that are beyond their control.

One of the most common ways to measure inequality is the Gini coefficient, which uses an algorithm to produce a numerical rating for how far a society is from perfect income equality—denoted by a Gini of 0. A higher Gini coefficient means greater income inequality, with a Gini of 1 indicating maximum inequality. For convenience, *Development Asia* cites the Gini multiplied by 100. All Gini data used in this issue of *Development Asia* is sourced from ADB research.

Many argue that inequality is best measured by examining the income and opportunities of the poorest members of a society.

The Gini coefficient is limited to measuring income inequality, which economists generally agree is too narrow a perspective. Other measures include access to education, health care, and basic social services, many of which can be found in the United Nations Millennium Development Goals.

Many argue that inequality is best measured by examining the income and opportunities of the poorest members of a society. Regardless of a country's overall economic growth, or wealth at the top end, those most affected by a lack of opportunity will always be the poorest. BY FLOYD WHALEY ■

times more likely than their wealthier peers not to attend primary and secondary school.

"Access to education is the fundamental issue," says Peter Warr of the Australian National University. "To acquire skill, education is needed. Throughout Asia, rural people especially are disadvantaged in this respect."

Secondary school attendance in rural Bhutan and Pakistan was only half of that in cities. In the Philippines, children of wealthier households were seven times more likely to attend college.

A study by the Organisation for Economic Co-operation and Development (OECD) on rising inequality in emerging economies, released in 2011, found that while primary education is available in many remote areas, secondary schooling can involve traveling or even relocating, making it harder for children to attend classes.

The problem compounds with each generation.

In Pakistan, a household head with no formal education was likely to view educating children as a waste of time, according to an ADB study in 2012. The study notes that in Viet Nam and Sri Lanka, large households are less likely to send their children to school.

Girls still find schooling harder to come by especially in parts of the Pacific, South Asia, and Southeast Asia, though the gender-schooling gap has been narrowed considerably in East and Central Asia.

Insufficient health care is also common at poor households. Infant mortality rates among the poor in



Infant death is more likely in poor households than rich ones.

the region were significantly higher, according to ADB data, than those of richer households; in the worst case, infant death is 10 times more likely in poor households as opposed to rich ones.

Lack of trained medical personnel is a factor, especially during childbirth. Poor households often can't afford top-notch treatment, and their predicament is worse if they live in rural areas.

World Health Organization (WHO) data shows that, despite reduced infant mortality region-wide, infants are at greater risk in rural areas—a differential that has worsened in recent years in several countries, including the Philippines and Viet Nam.

The lack of trained health care workers in rural areas can reflect the desire of graduates to work at the best hospitals, usually in cities. This is a problem particularly in large countries like India with remote rural areas, says Marika Vicziany, a political economist specializing in Asia at Monash University in Melbourne, Australia. “The average doctor is trained in an urban environment at urban hospitals,” says Vicziany. “They don't want to go back to the villages.”

Lack of access to clean water, “clean” cooking fuels, proper sanitation, and dependable electricity can deepen health problems.

More than 90% of rural populations in 10 economies depend on “dirty” solid fuels like wood and coal for cooking and heating, with detrimental health consequences.

In 2010, 14% of rural developing Asia compared with just 3% of city dwellers lacked access to clean drinking water, according to *Framework of Inclusive Growth Indicators 2012*. Open defecation is common in rural areas. Patchy or nonexistent electricity supply to

remote areas complicates attempts to deliver basic services.

WHAT LIES BEHIND Asia's rising inequality? The drivers appear to be the same forces propelling Asia's economic growth.

Globalization has opened up economies to global trade, introduced new and more efficient technologies, and enabled greater capital flows.

It has generated tremendous wealth creation opportunities, but these are often not shared equally. Profits from increased market access skew to factory owners than factory workers; skilled workers get paid more than the unskilled who may even lose their jobs to new technology; cities with decent infrastructure prosper while remote ones lag.

“For countries whose economies are export-driven, globalization provides employment opportunities for millions of workers and lifts many of them from poverty,” says Liu Haoming of the National University of Singapore. “However, it also increases the income inequality between those who participated in the exporting industries and those who were excluded.”

This is not to argue that globalization be reversed, were it even possible. In fact, globalization has done much more good than harm, especially in once-closed economies.

“Globalization has been a terrific benefit to India,” says Monash University's Vicziany. “The problem is that rural India has not benefited from it. Liberalization has been an urban phenomenon.”

Still, impoverished communities are often ill equipped to cope with sudden changes that globalization can bring. Many workers in Asia are employed informally as domestic helpers, construction workers, and the like, for small wages and meager prospects.

“People will only be motivated to work harder if there is some degree of inequality. But it has to be contained in a certain range.”

—Haoming Liu, labor economist at the National University of Singapore

Myla earned only 500 pesos (approximately \$12) a month as a domestic helper. She wanted to quit but stayed on to fund medical treatment for her sick grandparents: “I had no choice but to go back to work.”

Workers like Myla usually aren't covered by government employee support schemes, which in any case can be insufficient. The PRC and India spend three to four times less on social protection than the OECD average according to the OECD, which notes also that in 2008, only one-third of Indonesian workers who lost their jobs received severance pay.

Technological change is another challenge for Asia's poor, according to the International Monetary Fund (IMF), as it favors workers with tech skills and may extinguish the jobs of those lacking these skills.

“The disequalizing effect of technological change is stronger in Asia,” IMF researchers Florence Jaumotte, Subir Lall, and Chris Papageorgiou wrote in the working paper *Rising Income Inequality: Technology, or Trade and Financial Globalization?* “This possibly reflects the greater share of technology intensive manufacturing in Asia.”

IT IS POSSIBLE that we are altogether too alarmed by rising inequality. Surely, the argument goes, the dramatic falloff in poverty more than compensates. Moreover, isn't inequality just a phase in the development process?

Some have argued that an “efficient inequality range”—typically between 25 and 40 Gini points—can promote economic growth.

“People will only be motivated to work harder if there is some degree of inequality,” says Haoming Liu. “But it has to be contained in a certain range.”



Inequality can encourage hard work and innovation.

STRIKING A BALANCE

A little incentive can go a long way

For decades, some economists have argued that inequality is an essential ingredient of economic growth. The theory holds that the pursuit of equality by government reduces incentives to work, save, and invest.

Increasingly a body of data is emerging that indicates a broader view of the relationship between inequality and economic growth. “Good inequalities” support economic growth by encouraging hard work and innovation, and “bad inequalities” deter growth, particularly over the long term.

An example of a “good inequality” is the Household Responsibility System introduced by the People's Republic of China in the 1980s. Before, farming was collective and all proceeds were shared with the state. The new system allowed farmers to claim the output of land they farmed.

The result was that some farmers worked harder and innovated to increase their yields and income. This caused greater income inequalities, as some farmers got wealthier while others did not. The program had long-term implications but the early result was a telling endorsement of the positive power of some forms of inequality.

But researchers have also found in recent years that other forms of inequality—so-called “bad inequalities”—negatively impact growth.

The poor generally do not have access to resources to invest in educating their children, to expand their skill set, or to create a small business. These capabilities are all key drivers of economic growth that income inequality can eradicate.

High levels of income inequality can also increase crime, which deters the investment needed to create jobs and exports. It can also increase political unrest, which has a similar impact on investment and can threaten the entire economic system if it results in political upheaval.

Inequality also distorts the stabilizing qualities that a large middle class brings to society.

Large numbers of neglected poor can demand populist economic policies that the wealthy—some of whom may subvert the political system through corruption—resist.

These destructive forces rarely produce economic policies that result in sustained, long-term growth.

BY FLOYD WHALEY ■

Arthur Lewis, the Nobel Prize-winning economist from Saint Lucia, argued that development can't be egalitarian as it happens at different times in different parts of an economy. He attributed rising inequality to uneven patterns in growth, a trend that has been a feature of Asia's economic growth path.

Further complicating the issue, inequality can sometimes arise from differences in effort rather than entrenched social inequities. The axiomatic notion that people who work hard are more likely to achieve success has spurred debate over whether inequality should, to a certain degree, be welcomed (see *Defining Inequality*).

For many poor households however, no amount of effort will lift them up the income scale as they lack the educational and other opportunities to improve their lot in life. In fact, these people are often exposed to sudden income loss due to forces they may not understand. Indeed, developing Asia's rising Ginis indicate that inequality may be exiting an "efficient" range and heading into dangerous territory.

This is not welcome, as most economists agree that excessive inequality can hobble efforts to reduce poverty and to stimulate economic growth. An extra 240 million people would have been lifted from poverty had inequality remained static during the 1990s and 2000s, according to ADB data. The number of people living on less than \$1.25 a day would have fallen dramatically in the PRC, India, and Indonesia. Apart from the waste of human capital, inequality can breed social tensions and political instability if elites are allowed to capture the policy-making agenda at the expense of the poor.

"If the rising inequality is seen as a sign of injustice, that is really dangerous," says Peter Warr.

ASIAN GOVERNMENTS REALIZE

something needs to be done. Two-thirds of policy makers surveyed recently by ADB agreed inequality was high and had increased over the past decade. More than half said inequality is unacceptable even if poverty declined.

Progress is being made. Earlier this year, the PRC unveiled reforms to narrow the wealth gap including measures to boost farm incomes and deliver better public services to rural migrants in cities, according to media reports.

In India, girls are graduating with information technology degrees and getting jobs in the booming tech sector. "These girls are getting the right kind of education to be able to compete for jobs," says Monash

to bridge wealth and skills gaps that are currently widening.

"That should be seen as the canary in the mine," says Center for Global Development's Birdsall. "Pay attention and address it, since at some point it probably reflects inequality of opportunity and injustices in the system that put growth at risk."

Latin America has successfully tackled inequality by focusing on jobs-rich growth, and boosting spending on public services for poor households in lagging regions.

Asia is starting down that track, says Zhuang, who points to conditional cash transfer programs to the poor in the Philippines and Indonesia that may produce social dividends. Additionally, several Asian governments have taken the

Inequality can breed social tensions and political instability.

University's Vicziany. "The problem is there aren't enough of them to make a big difference."

Inequality may indeed decline once Asia's economies mature, in line with a decades-old theory proposed by US economist Simon Kuznets that inequality declines once a certain level of average income is attained, due to a multitude of factors. This proposition is not uniformly supported by empirical evidence, however.

"The factors Kuznets considered in formulating his hypothesis also include policy interventions," says ADB's Zhuang. Thus, without policy interventions, mere increases in the average income level may or may not lead to declining inequality.

As there is no guarantee that Asia's inequality will fall with economic growth, Asia's policy makers must find ways to promote economic growth that is inclusive as well as impressive,

fight to inequality through policy pronouncements placing new emphasis on inclusive economic growth. Funding is necessary for these prescriptions to work effectively, however. That will be a challenge given that developing Asia has the world's lowest tax burdens due to small tax bases, inefficient collection, and high evasion. "Asia needs better taxation to find the revenue to fund inclusive growth," says Zhuang. "Rich people should pay more."

While Asia gets grips with its inequality challenge, its poor wait for the chance to seize a better life.

Myla's dream is to be an English teacher. She asks only for the chance to work for a new life. "I'm ready now to go to school, to start again," she says. Asia's inequality challenge will be beaten only when most of its poor get the same opportunity. ■



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INEQUALITY IN ASIA

Inequality and poverty are not the same. Asia's economic rise has lifted millions out of poverty. But the gap between rich and poor has widened.

81%

Poverty has fallen. From 1990 to 2008, the proportion of developing Asia's population living below the \$2-a-day poverty line has fallen 1.7 percentage points a year.

49.8%

46

Inequality has risen. Asia's Gini coefficient—a measure of income inequality*—increased by 1.4% a year from the early 1990s to the late 2000s.

39

Asia is getting less poor—but more unequal.

TECHNOLOGICAL CHANGE
GLOBALIZATION
MARKET-ORIENTED REFORM



These three forces have created tremendous wealth. But opportunities have not been shared equally. They work in three main ways to increase inequality:

- They benefit the owners of capital such as **factory owners** more than **factory workers**.
- They increase earnings of **skilled workers** more than **those of the unskilled**.
- They provide more opportunities to urban and coastal areas that have **better infrastructure** and **access to overseas markets**.

CAUSES

Widening income gaps between the poor and the wealthy result in continuing substandard education, health care and infrastructure for poor households, while the wealthier benefit from better hospitals and schools.



In **10 of 15** Asian economies, the poorest children are at least twice as likely to die before 5 years of age than richer children.



In **15 of 23** Asian economies, a child in the poorest 20% of households is at least twice as likely to be underweight.



In Cambodia and the Lao PDR, children from the poorest **20%** of households are 4-5x more likely not to attend school.

*High Gini coefficients denote high inequality. Gini coefficients in this illustration are based on per capita consumption expenditure.

RURAL

Rural populations often lack access to jobs, infrastructure, education, and health care. The ratio of rural to urban poverty worsened in 18 of Asia's economies through the 1990s and 2000s.

Of **795 million** people in developing Asia with no access to toilets, **91%** are from rural areas.

In 2010, about **14%** of the rural population of developing Asia had no access to improved drinking water supplies, compared with **3%** of city dwellers.

CONSEQUENCES

EDUCATION, HEALTH, INFRASTRUCTURE, SANITATION



In the Philippines, children of wealthier households are **7X** more likely to attend college than poor children.



57% of developing Asia's rural population use sanitation facilities that have not been upgraded.



In South Asia and Southeast Asia, electrification rates vary from **20%** to almost 100%. In four economies, less than half of households have access to electricity.

Sources: World Bank Group, PovcalNet Database Online, World Development Indicators Online; ADB, Asian Development Outlook 2012: Confronting Rising Inequality in Asia; ADB, Framework of Inclusive Growth Indicators 2012: Key Indicators for Asia and the Pacific, 43rd edition; ADB, Framework of Inclusive Growth Indicators 2012: Key Indicators for Asia and the Pacific, Special Supplement.

EFFICIENT FISCAL POLICY



- Increase spending on **education and health** for the poor
- Better targeted **social protection**
- Replace general price subsidies with **targeted transfers to the poor**
- **Broaden the tax base**

SOLUTIONS

INTERVENTIONS IN LAGGING REGIONS



- Better regional **infrastructure**
- Develop **new growth centers**
- **Fiscal transfers to poor areas** to boost human capital
- **Remove barriers** to migration

MORE JOBS-FRIENDLY GROWTH



- **Spread growth** across key **economic sectors**
- Support development of **small and medium enterprises**
- **Remove market distortions** that discourage job creation
- Introduce **pro-job labor market programs**.



THE REFORMER

India's Finance Minister Palaniappan Chidambaram talks to *Development Asia* on the challenges of addressing inequality

For the past 2 decades, Palaniappan Chidambaram has played a central role in steering national economic policy during three appointments to the finance portfolio.

Chidambaram was born in 1945 to a prominent family of industrialists from Chennai in the southern state of Tamil Nadu. He trained as a lawyer and obtained a masters of business administration (MBA) from Harvard Business School. In 1984 he was elected to the Lower House of India's Parliament, the Lok Sabha. Since then he has held various ministerial roles, and has rarely been out of the national limelight.

Known for his advocacy of market reforms, Chidambaram has been a driving force behind India's economic reform program since the mid-1990s. He was praised for his deft handling of the global financial crisis during a previous four-year term as finance minister, overseeing strong annual average economic growth. As finance minister, Chidambaram is tasked with delivering

robust economic growth. But his lifelong concern for India's poor is reflected in his most recent national Union Budget for 2013–2014, unveiled in February, which contained measures to curb inequality and to boost the economy.

He pledged the government would increase spending on rural welfare, roads, and jobs. Also promised were food guarantees for the poor, programs to improve women's safety, and a public sector bank for women to redress gender imbalances in access to finance.

These measures support India's 12th Five Year Plan (2012–2017) which is focused on "achieving a growth process that is as inclusive as possible." The plan states that while inequality can be encountered in any country, it must be kept "within tolerable limits."

The challenge facing India's policy makers is formidable, but one that Chidambaram believes can be met through appropriate policy adjustments. Here he discusses the causes of inequality in India, its impact on society, and how India is meeting the challenge.

DEVELOPMENT ASIA: Inequality is rising throughout Asia and the Pacific, despite the region's comparatively strong economic growth. How would you assess the current situation in India regarding inequality? Is economic growth acting to reduce or worsen inequality?

PALANIAPPAN CHIDAMBARAM: On the basis of information available from the surveys conducted by the National Sample Survey Organisation on Consumption Expenditure, it has been observed that while inequality has not risen significantly in the rural areas, the same cannot be said about the urban areas. This is evident from the values of Gini coefficient that remained generally stable. The Gini coefficient in rural areas was 0.28 in 1973–1974 and 0.29 in 2009–2010. Inequality has indeed risen in the urban areas.

The Gini coefficient in urban areas increased from 0.30 in 1973–1974 to 0.38. It is difficult to say whether growth would have affected inequality, as growth has taken place both in rural and urban areas in the country. One reason why inequality did not increase in rural areas could be attributed to various antipoverty programs being undertaken by the government. Support initiatives to agriculture, such as the Minimum Support Prices for agricultural crops, and increased flow of institutional credit and agricultural inputs also played an important role. In recent years, programs such as the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), a government employment guarantee program, and the National Rural Livelihood Mission have also provided income support in rural areas.

The increase in inequality in urban areas may be partly due to migration. There has, however, been a perceptible decline in the poverty head count ratio (HCR) in both rural and urban areas. The All India HCR declined by 7.3 percentage points from 37.2% in 2004–2005 to 29.8% in 2009–2010, with rural poverty declining by 8 percentage points from 41.8% to 33.8% and urban poverty declining by 4.8 percentage points from 25.7% to 20.9%. There is no evidence to suggest that worsening inequality in urban areas is in any way associated with our growth process.

DA: Globalization is often blamed for delivering gains to some while depriving others of income and access to key services like education and health. Do you believe that globalization has played a role in fostering inequality regionally and in India?

PC: There are many who are of the view that globalization may have helped in reducing poverty levels by contributing to higher growth rates. Let us take the Indian case. During 1951–1991, the pre-reform period, GDP [gross domestic product] growth in India had averaged 4.1% per year. This increased significantly in the post-reform period and averaged 6.7% during 1991–2012. There has indeed been a sharp decline in the poverty HCR in both rural and urban areas. Higher GDP growth in the post-reform period has indeed contributed to this improvement.

Further, to ensure that there is no decline in consumption levels of vulnerable sections of society, India has adopted a comprehensive public distribution system that is targeted at covering persons who are at the lower end of the income distribution. Beside adequate supply of cereals to these persons, we have kept grain prices unchanged for the poor since July 2002. This, in a way, has ensured some equality in consumption levels.

DA: Countries around the region have taken differing approaches to tackle inequality, with some focusing on redistribution and others on faster economic growth. Please outline India's approach, and any recent progress made on reducing inequality.

PC: India has taken different approaches to reduce various dimensions of inequality and deprivations. Inequality could take the form of interpersonal inequality or regional/spatial inequality. As far as spatial aspects are concerned, reducing interstate inequities has engaged the attention of government for a long time.

Some of the policy measures taken in this connection include transfers of resources from the [national

“India is a large country. We have to improve the living standard of several hundred million persons. This is no doubt a long-drawn battle.”

government] to states, favoring less-developed states with additional grants, tax incentives for setting up of industries by the private sector in backward regions, implementation of various centrally sponsored and state specific schemes that give due weightage to backwardness of states, etc. Most of the states have also emphasized growth- and social security-related transfers to address the issues relating to poverty.

DA: Some argue that inequality is a necessary phase of economic growth and may even promote growth. Others counter that it corrodes growth. What is your view, based on India's experience with inequality?

PC: There is no conclusive evidence that rising inequality is a necessary aspect of growth. Indeed, rising inequality may eventually damage the support for growth. At times, it may happen that the initial beneficiaries of the reform process could be ones who have better skills and resources. Even in this situation, however, policies need to be so designed that the disadvantaged groups are not adversely affected.

“There is no evidence to suggest that worsening inequality in urban areas is in any way associated with our growth process.”

I agree that in ensuring inclusive and equitable development, market forces in themselves are not sufficient. Increased public funding for education, health, and other basic services could, to a large extent, improve the capabilities of individuals to benefit from the reform process. In India, there has been a significant step-up in expenditure on social services and rural development. Plan and non-plan expenditure of the central government on social services and rural development, as a proportion of its total expenditure, has increased from about 5% in 1990–1991 to 18% in 2010–2011.

DA: Much of the region’s inequality occurs either between regions or within regions. Some of India’s inequality reflects imbalances between states. What has driven this, and how is the government responding?

PC: The interstate differences in India have been there for a long time and could be ascribed to various factors. Our states are larger than some countries of the world. The same factors that create differences in incomes between countries create differences in incomes between the states. These include history, geography or location, natural resource endowments, etc. The government has been taking several steps to address the issue of regional imbalances.

DA: Income inequality is a growing problem across Asia, with marked increases in the People’s Republic of China and other countries. Income inequality has increased in India as well. Is this a concern, and how is India meeting this challenge?

PC: Evidence seems to suggest that inequality, as measured by the Gini coefficient, has increased in a large number of OECD [Organisation for Economic Co-operation and Development] countries. It also increased in [the People’s Republic of] China and some other emerging economies in late 2000, vis-à-vis early 1990.

The situation is similar in India, where there has been an increase in inequality, particularly in the urban areas. We in India are working on a number of fronts to address the problem. I have already indicated the policy measures taken in this connection.



Chidambaram on arrival at Parliament for the Union Budget 2013–2014 presentation.

As far as interpersonal inequities are concerned, it is being addressed mainly through fiscal instruments by allocating/spending a large proportion of public expenditure on antipoverty programs. In recent years, we have observed that even the poorer states have started registering high growth, a phenomenon that was absent earlier. If such trends continue, this should lead to reduced inequality.

DA: Typically, spatial inequality in Asia means that rural areas lag urban areas. In India, however, rural inequality is often lower than urban inequality. What factors account for this apparent contrast?

PC: Talking of spatial inequality in Asia, where rural areas lag behind urban areas, I think in India we too face same problem, where the rural areas lag behind the urban areas in a large number of socioeconomic indicators. However, interpersonal inequality is not only higher in urban areas compared to the rural areas; it is also increasing over time in the urban areas, while in the rural areas it has remained fairly stable over time.

Perhaps one should treat the two phenomena as independent of each other. However, it may also be possible that inequality in the rural areas could be less

because of a relatively smaller and near-homogeneous consumption basket.

Another reason why inequality could be higher in the urban areas may have to do with the pattern of migration. It is quite likely that it is poorest of the poor who migrate from the rural areas to urban areas in search of jobs. Often they land on getting low-paid jobs, thereby causing inequality to increase in the urban areas.

DA: Workers in the informal labor sector lack social protection and job security that many in the formal sector enjoy. Does India's large informal workforce pose any specific challenges to ensuring equality?

PC: Over 90% of the workforce in India is in the informal sector. However, in terms of the status of employment, self-employment has a dominant share accounting for 54% of total persons employed. Thirty-nine percent of the workforce is casual labor, and the remaining 7% are regular wage/salaried employees. Many of the self-employed persons are engaged in their current activities because of lack of gainful opportunities elsewhere.

The existence of such a large proportion of the workforce in informal, low-paid, and relatively less-protected sectors indeed makes equality issues both complex and difficult. The approach of the government has been to have special support programs for the unorganized sector workers, improve skill levels of the workforce to increase their employability in the formal sector, and provide some kind of a guaranteed employment. The government is already implementing a health insurance scheme, a death and disability insurance scheme, and an old-age pension scheme for unorganized sector employees.

DA: India's 12th Five Year Plan commits the government to "a broad-based improvement in living standards of all sections of the people." How long do you think this process will take, and what are the largest hurdles in the way of reaching this goal?

PC: India is a large country. We have to improve the living standard of several hundred million persons. This is no doubt a long-drawn battle. Therefore, it is difficult to give a specific time frame to improve the standard of living for all. However, we have to see it as a process and ensure that we move in the right direction.

To achieve this, not only do we have to raise the growth rate of the economy but we also have to ensure proper implementation of various antipoverty and other programs that aim at improving the health and education status of the people, ensure decent housing for them, and in general improve the living standards of the people at large.

For this we have to raise the resources, growth rate, and tax-to-GDP ratio, and improve the efficiency of spending and delivery mechanism, etc. In recent years, some

industrial houses have focused on improving the living conditions by forming charitable trusts. The new Company Law envisages companies spending a proportion of their profits on corporate social responsibility activities.

DA: Indians have rising expectations for better lives. However, economic growth has slowed recently. How does this magnify the challenge of meeting those rising expectations?

PC: In order to meet the rising expectations of the people, we have to meet the basic needs of people. Everyone expects, and rightly so, that there should be sufficient food, education, good health, a decent place to live in, improved connectivity, electricity, etc. for them and their families.

Obviously these need resources and the recent slowdown has affected the resources available as a result of lower growth as well as lower tax-to-GDP ratios. Consequently, the resources available for meeting the needs and expectations of people have not grown sufficiently. In order to meet the rising expectations of people, we need to raise both the growth rate as well as the tax-to-GDP ratio, so that more resources are available.

DA: What is the role of the private sector in helping deliver inclusive growth?



Over 90% of the workforce in India is in the informal sector.

“We have observed that even the poorer states have started registering high growth, a phenomenon that was absent earlier. If such trends continue, this should lead to reduced inequality.”

“In order to meet the rising expectations of the people, we have to meet the basic needs of people.”

PC: The share of the public sector in India’s GDP is about 20% (20.5% in 2011–2012). The private sector, therefore, becomes important in any strategy for an inclusive growth. It has an important role in skilling people and creating opportunities for their employment. Further, it has to ensure that wages paid are fair and working conditions are decent. The private sector has been playing an important role in inclusive growth through their corporate social responsibility initiatives.

DA: What role can the agriculture and manufacturing sectors play in ensuring that India’s future economic growth is inclusive?

PC: Faster and inclusive growth would undoubtedly require an increase in factor productivity in both agriculture and manufacturing. With a share of under 15% of GDP, agriculture still employs more than one-half of the total workforce. It means that the relative income per person engaged in agriculture is just about one-sixth of the persons engaged in nonagricultural activities.

Besides an increase in the productivity of agriculture by increasing the levels of investment, there would be a need to shift part of the workforce away from agriculture to manufacturing and other sectors. Manufacturing growth in an open economy cannot depend solely on domestic demand.

Our corporates need to become competitive and sustain the competitive edge to retain their domestic shares and increase their penetration in global markets. Indian industry also needs to graduate from being small scale to an optimal economic size. Many small and micro enterprises do not grow to an optimal economic size because of the fear of losing the benefits associated with the small-scale tag.

I have provided them a window to grow in the Union Budget 2013–2014 by allowing them to retain the nontax benefits and preferences for up to 3 years. We have also taken initiatives to improve technology levels in industry, both at the aggregate and sector-specific levels, such as textiles and leather.

DA: Scheduled castes and scheduled tribes are recognized as disadvantaged groups in Indian society. What progress is being made in reducing income gaps between them and the general population?

PC: We do not have details regarding the incomes by different socioeconomic groups in the country. However,



Chidambaram in conversation with India's Prime Minister Manmohan Singh.

what we do have are the details on the proportion of those living below the poverty line for different social groups.

The proportion of people living below the poverty line among scheduled castes, scheduled tribes, and others was 48%, 52%, and 31%, respectively, in 1993–1994 for the rural areas, while it was 48%, 41%, and 28.5%, respectively, in the urban areas.

On a comparable basis, the proportion of those living below the poverty line in the year 2009–2010 was 32%, 34%, and 21%, respectively, for scheduled castes, scheduled tribes, and others, while this proportion was 36%, 32%, and 21% for these categories, respectively, in the urban areas.

These estimates are based on the surveys conducted by the National Sample Survey Organization. It may be mentioned that these estimates are based on individual research and not on official estimates of the government.

What emerges from these numbers is that there has been a significant reduction in the proportion of people living below the poverty line across all sections of society including scheduled castes and scheduled tribes. Poverty declined somewhat faster for others than for scheduled castes and scheduled tribes, but not significantly so. Incidence of poverty is still higher for scheduled castes and scheduled tribes than for others.

DA: Unequal access to social goods such as health care and education are key indicators of inequality around Asia. Which would you say are the highest priority policy areas in terms of reducing equality of opportunity in India, and why?

PC: There are three or four areas that are important to us. Poverty eradication is possibly the most important among them. Providing jobs to people, adequate health services, and education that will focus both on reach and quality is very important.

PHOTO: AP

Provision of health and education, along with employment and poverty reduction, is the surest means for inclusion. One major area of intervention for government is improving the skill levels and employability of the workforce in nonfarm sectors. In the Union Budget 2013–2014, I have laid special emphasis on skill development. We are in fact targeting skilling of 50 million persons during the 12th Five Year Plan and 9 million of these are proposed to be covered in 2013–2014.

A regular and gainful job is the best form of inclusion. The absence of such inclusion is possibly the single biggest source of interpersonal inequality.

DA: Has the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) reduced inequality in rural areas? If so, how?

PC: The MGNREGA aims at enhancing livelihood security of households in rural areas by providing at least 100 days of guaranteed wage employment to every household. The program also focuses on strengthening natural resources management through works that address the causes of chronic poverty like drought, deforestation, and soil erosion, and thus encourage sustainable development.

This program has not only improved the bargaining power of agricultural labor with an increase in private sector

“There is not one approach to reduce inequality. We have to focus on all the measures and on a multipronged strategy in order to get the desired results.”

wages; there has also been a reduction in distress migration. Together with the Swarna Jayanti Shahari Rozgar Yojana and National Rural Livelihood Mission, the strategy for inclusive growth in India has witnessed a paradigm shift.

DA: Policies to reduce inequality may include interventions in lagging regions through fiscal transfers, higher spending on education and health, more jobs-friendly growth, and reforms to broaden the tax base. Which do you believe are the most effective and feasible approaches for developing economies?

PC: There is not one approach to reduce inequality. We have to focus on all the measures and on a multipronged strategy in order to get the desired results. ■



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The image shows the silhouettes of two people standing in a field, holding large brushes or brooms. They are positioned against a bright sunset or sunrise, with the sun low on the horizon. The sky is a mix of dark and light tones, and there are some small white specks scattered across it. The overall mood is contemplative and artistic.

THE GROWTH CONUNDRUM

The economies of the People's Republic of
China, India, and Indonesia are growing.
But so is inequality



PHOTO: AFP

**By Edimon Ginting, Rana Hasan,
and Juzhong Zhuang**

The Asia and Pacific region has led the world in terms of economic growth and poverty reduction over recent decades. From 1990 to 2010, the average annual growth rate of gross domestic product (GDP) for the region's developing countries reached a remarkable 7%.

During the same period, per capita GDP more than tripled. More than 700 million people have been lifted out of poverty by this rapid growth, according to the Asian Development Bank (ADB).

But policy makers and leaders throughout the region are increasingly concerned that hundreds of millions have been left behind. Many of those people live in the expanding and populous economies of the People's Republic of China (PRC), India, and Indonesia.

How has inequality developed in the region and what are policy makers doing to address the issue? Insights into these questions are provided by an analysis of the region's three most populous countries—the PRC, India, and Indonesia.

THE PRC HAS SEEN the fastest economic expansion, but also the region's highest increases in inequality. Between 1990 and 2012, the PRC experienced an annual GDP growth rate of 10.2%. During the same period, inequality increased more than 1.6% per year as measured by the Gini coefficient, making it among the highest in developing Asia.

Inequality in the PRC has manifested in various ways. The urban–rural divide has increased significantly, and it now contributes nearly half (about 45%) of the country's overall income inequality. High urban–rural inequality reflects the country's dual economic structure—comprising the urban economy based on modern manufacturing and services, and rural areas dominated by more traditional but less productive agriculture—and much higher urban growth. But the situation has also been exacerbated by the *hukou* (residency registration) system that limits labor mobility.

The PRC's regional inequality is also high. Coastal areas have been the main beneficiaries of economic reform and have led the country's export-driven economic expansion in the recent decades, as investors built factories near ports to put them closer to their markets overseas. This created jobs and prosperity in much more abundance than in the country's interior areas.

Market-oriented reform has significantly increased earnings differentials among individuals, which, coupled with the forces of globalization and technological

Rising levels of inequality are an additional vulnerability to the region's economies that warrants urgent action.

change, has led to a rising premium on skills and increasing returns to education. Differences in educational attainment accounted for 30% of income inequality in 2007, compared with only 10% in 1995. People with more skills and higher education have benefited far more from the economic boom than those without.

The share of wage incomes in the PRC's industrial output fell from nearly 50% in the mid-1990s to about 40% a decade later. This decrease was due to technological change favoring capital owners, and a large pool of rural surplus labor exerting downward pressure on urban wages. This trend contributes to rising inequality as capital incomes are less equally distributed.

These pressures are exacerbated by unequal access to opportunities that people need to improve their lives through hard work. The *hukou* system limits access to benefits for rural migrants looking for jobs in cities. Employees of state-owned enterprises in certain sectors earn much more due to the monopolistic power of these enterprises. Some people in control of public resources can profit from rent-seeking due to loopholes and weaknesses in governance.

Policy makers in the PRC are addressing the problem of inequality with the stated development goal of building a "harmonious society." This has been enshrined in its development plans, including the Twelfth Five Year Plan (2011–2015), which focus on high-quality, inclusive economic growth rather than simply high growth. The current plan seeks to create 50 million urban jobs in

5 years while expanding compulsory education, health coverage, pension programs, and housing opportunities. The PRC is also addressing inequality through policy measures including tax reform to improve income distribution, a sharper focus on the service sector as a source of jobs and growth, and governance reforms.

One direct intervention to address inequality that has shown some results is the Great Western Development Strategy. The plan covers 11 underdeveloped western provinces and autonomous regions, making up three-fourths of the country's land area but only one-fifth of the PRC's total economic output.

Under the strategy, about \$349 billion in infrastructure investments have been made in the area between 2000 and 2009 to attract foreign investors. Education opportunities have been expanded to keep talented workers from migrating to more prosperous regions.

As a result, annual average GDP growth in the western provinces reached 11.9% between 2000 and 2009—higher than the national average. Regional inequality has declined, which has helped stabilize national inequality levels.

LIKE ITS EAST ASIAN NEIGHBOR, India enjoyed strong GDP growth between 1990 and 2012—averaging 6.6% annually. These improvements were also accompanied by an increase in inequality, with the Gini coefficient rising from 32.5 in 1993 to 37 in 2010.

However, the increase in income inequality has been less pronounced

than in the PRC, and is a mainly urban phenomenon driven by higher earnings in skill-intensive sectors and occupations.

Non-income inequalities loom larger, especially in education and health. About 5% of children younger than 5 in the richest 20% of households are underweight, compared with 28% in the poorest 20%. These inequalities, however, reflect historical imbalances in the delivery of education and health care services rather than the results of economic liberalization.

Both income and non-income inequality vary widely between regions, some of which have grown faster than others. Incomes tend to be higher in coastal states exposed to trade opportunities, while the poverty rate varies from almost 54% in landlocked Bihar to 17% in Tamil Nadu, a coastal state that has emerged as an important hub for manufacturing of automobiles and automotive components and exports of apparel.

India's growing income inequality partly reflects the common sense notion that when economic growth ignites, it does so in some parts of a country earlier than others, and is driven by certain sectors and not others. However, to some degree increasing inequality exists because India—a labor-rich country—did not exploit its comparative advantage in sectors such as manufacturing, especially its labor-intensive subsectors. This was a missed opportunity to expand production of labor-intensive products, thereby creating more jobs.

SLEEPLESS IN SHANGHAI

Two jobs, 18-hour work days, still not enough

Just before midnight, as Shanghai's neon-lit streets fade to black, Gao Changyi makes his way to nearby farm villages to fetch vegetables. While the city sleeps, Gao and his wife sort vegetables to display on their grocery stall when it opens at dawn. In the afternoon, he works at a moving company hauling beer crates and furniture by hand around the city.

Then it's back to the market to help his wife shut the stall. A few hours later his long day starts again.

"I really want to quit because I'm so tired but there's nothing else for me. I don't have much education or skill. Factories won't hire me. If I don't work, no one will support us when we get old."

Life wasn't always this tough for Gao. Business was plentiful and apartment rents low when he migrated to Shanghai from his home province of Henan more than 20 years ago. The 50-year-old believes things started changing a few years ago when prices started rising: "I lost a lot of business. The rent also started rising around that time."

Gao and his wife now live in a 15-square-meter apartment near the market where they work. Rent costs \$257 a month and the couple has to find an additional \$418 to

cover utilities, transport, and shop rent. Gao's income, on the other hand, continues to fall. He complains that most vegetables are 50% more expensive than they were a year ago; as a result, people simply buy less.

"The price goes up and business goes down. The profit doesn't change but sales are down by half. We make no more than \$322 a month. We can't save much at all."

Last year, he took a second job as a porter, hauling heavy boxes up and down stairways for an extra \$12 a day. Like most migrant workers in the People's Republic of China, Gao doesn't have social security, medical care, or a pension. All four of his daughters are married and are no longer obligated to financially support their parents.

"I get 5 hours of sleep on an average day and sometimes only 3 hours. I'm used to it. I don't have time to get sick. If I catch a cold, I just ignore it. Going to hospital is expensive. I haven't seen a doctor for 20 years."

Gao envies Shanghai's well-heeled residents. At his age, many of them have already retired and lead a comfortable life. "They get a good pension and medical care. I have nothing. This is the difference between city people and countryside people." BY JOSÉ QIAN ■

"I don't have time to get sick. If I catch a cold, I just ignore it. Going to hospital is expensive. I haven't seen a doctor for 20 years"

-Gao Changyi, 50,
vegetable vendor and furniture hauler



Infrastructure bottlenecks have been an important factor. Peak electricity demand outstrips supply by nearly 10% on average, and small and medium-sized enterprises have been the least able to cope with limited supply of electricity. Similarly, poor connectivity between rural areas and prosperous regions has hampered efforts to reduce inequality. About half of India's roads are not paved.

Burdensome regulations on issues like worker layoffs have made matters worse and have discouraged investment in labor-intensive manufacturing sectors—precisely those that generate demand for relatively less skilled workers.

In sharp contrast, modern sectors such as information technology—

enabled services and finance—that are less affected by public infrastructure and by constraining regulatory frameworks—have experienced a boom in private investments and generated strong demand for well-educated workers.

India's challenge is to clear these infrastructure and regulatory bottlenecks. At the same time, better social protection schemes are important. Indeed, reforming regulations on worker layoffs will be difficult without such schemes in place. But no amount of social expenditure will alleviate inequality for long in the absence of economic opportunities for the poor.

The Government of India has reaffirmed a commitment to inclusive

growth in the Twelfth Five Year Plan (2012–2017). The government's approach to achieving greater inclusion can be viewed as consisting of two main channels.

The first aims to enhance economic opportunities for the poor by improving agricultural productivity, upgrading infrastructure, and revitalizing the manufacturing sector.

The second hinges on targeted programs to develop the capabilities of poor citizens to exploit economic opportunities. Examples of this are the planned Right to Food and Right to Education programs, and the National Skill Development Policy introduced in 2009 that aims to deliver skills training to 500 million people by 2022.



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TRAPPED TRIBE

A community trapped between two worlds. One is disappearing, the other unwelcoming

Jayamali is a member of the nomadic Hakki Pikki tribe, whose name means “catchers of birds.” That’s how they traditionally made their living, trapping birds in the dense forests that used to cover parts of the sprawling city of Bengaluru (formerly Bangalore) in India’s central south.

That livelihood has been all but destroyed since the local government banned trapping in the 1970s, forcing the Hakki Pikki to sell trinkets and cultivate small parcels of land. The forests they once called home are dwindling as development continues apace.

The tribe has been provided with land and housing by the government, as well as subsidies, to help them adjust to city life.

Still, life is difficult for Jayamali and her fellow tribespeople, and it is getting harder despite India’s growing prosperity.

Her village is perched on the border of Banerghatta National Park, only a few kilometers from Bengaluru’s bustling Banerghatta road lined with software parks and gleaming skyscrapers. Most of the tribe is illiterate.

Like many of her tribe, Jayamali, a 35-year-old mother of three who, like many women in southern India, goes by one name, has had to adapt to survive. Her husband, who dropped out of school in grade 4, works as a cleaner in a distant office, earning about \$73 a month. Jayamali sells hairpins, earning about \$1.80 a day if she is lucky.

Most of the family income goes to food, bus fares, and paying off loans, with little left over. “A monthly bus pass costs 900 rupees (\$16),” she says wearily.

Once the tribe hunted at Banerghatta Park; now they are not allowed to enter it. They don’t have deeds to their land, which they are involved in a legal battle to recover. As property values soar, developers have begun grabbing land around the village.

Jayamali points to new construction. “These big apartments are coming up right next to us, and the price of everything—rice, vegetables, kerosene—is going up. Before, we could grow *ragi* (a type of grain) on our land, or get firewood, tubers, honey, and greens from the forest.”

Jayamali must travel farther to find customers as the city expands. She travels across Bengaluru to sell her wares, but rising bus fares make it difficult.

Some of her friends travel as far

as New Delhi. Others have taken loans from loan sharks at crippling interest rates. “Banks won’t give us loans because we have no deeds,” Jayamali adds. “So we borrow money from moneylenders who charge us interest at 10%.” Many elders, lacking skills, have resorted to begging.

Jayamali fears for her children’s future. Unaccustomed to schooling, two of them are struggling in class. She hopes to get her land back. Exactly when that might happen, if at all, is just another unknown in a life plagued with uncertainty.

BY KAVITHA RAO ■

“Banks won’t give us loans because we have no deeds. So we borrow money from moneylenders who charge us interest at 10%.”

—Jayamali, 35,
member of the Hakki Pikki tribe
and mother of three



INDONESIA HAS EXPERIENCED similarly strong GDP growth. Between 2007 and 2012, real GDP grew by an average of nearly 6% per year. The country has made significant strides in terms of reducing poverty. Based on the national poverty line, the proportion of Indonesians considered poor declined from 16.6% in 2007 to 12% in 2012.

Despite the progress, approximately 30 million Indonesians continue to struggle in poverty. Another 60 million live just above the poverty line and could fall back beneath it if they are hit with economic shocks.

In line with other countries in the region, Indonesia has seen a steady

increase in its rates of inequality. Its Gini coefficient has increased from 31 in 1999 to 41 in 2011.

There are a number of drivers behind rising inequality in Indonesia. First, economic transformation has been much slower than expected. The agriculture sector, which absorbs more than one-third of the labor force, has consistently grown at a slower rate than the country’s average GDP growth of 3.5% in 2001–2010.

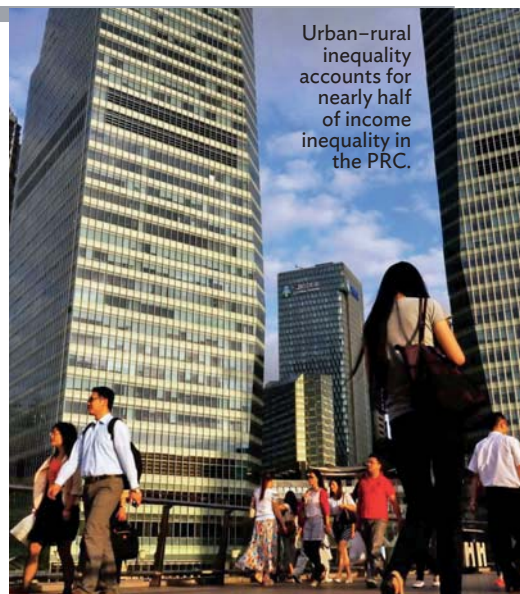
At the same time, the manufacturing sector has experienced slower growth, averaging 4.5% between 2001 and 2010. The manufacturing sector has only started to rebound in the last 2 years.

The second factor is persistent unemployment. Although the unemployment rate has declined, about 7.7 million Indonesians in the labor force are still unable to find jobs. Many of them are young people, aged 15 to 24. Of those who are employed, about 62% (about 68.2 million) are engaged in the informal sector, where wages are low.

Third, regressive fuel subsidies help spur inequality. These subsidies form the government’s largest public assistance outlay (2.6% of GDP in 2012).

Studies indicate that the richest 10% of households consume 40% of the subsidized fuel and the top half

Urban-rural inequality accounts for nearly half of income inequality in the PRC.



of households use about 84%. This is essentially a huge subsidy to middle- and high-income households at the expense of the poor.

Finally, inequality is worsened by poor access to financing by small businesses and bottlenecks in infrastructure that discourage investment and hamper connectivity to rural areas and the country's impoverished eastern regions.

The Indonesian government has recognized the problems associated with inequality and has enshrined inclusive development in its 2010–2014 development plan.

Although progress has been slow, there is now a stronger recognition of the need to reduce fuel subsidies and redirect resources toward infrastructure development, green growth initiatives, and developing the country's poorer regions.

In the 2013 budget, the government expanded its infrastructure spending commitments by 38%, with nearly half of this allocated to the eastern part of Indonesia.

The government is also increasing its investments in education and health care. Indonesia's Constitution now requires 20% of the national budget to be allocated to education.

A number of social safety net programs, first launched after the economic crisis that hit Indonesia in 1997/1998, are in place with refinements to reflect current conditions. These programs cover food security, employment creation, community empowerment, health, and education.

THE COMMON DENOMINATOR

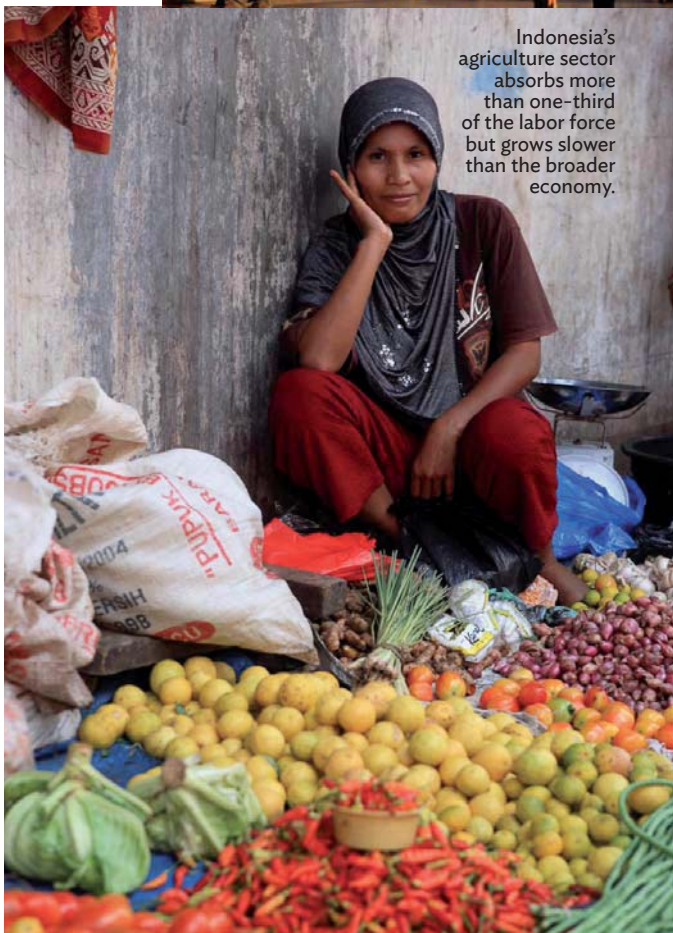
of the experiences of the PRC, India, and Indonesia is that all three countries have initiated major

economic reforms and leveraged the forces of technological progress and globalization in recent decades. These have brought strong economic growth and great prosperity, but the growth has not been distributed evenly across their societies, leading to greater inequality.

This has emerged in the form of a bias in favor of capital and skills. In the case of the PRC, for example, those who own factories have benefited from economic growth far more than those who work in them. In India, a sharp rise in demand for skilled workers in modern services has increased their earnings relative to those with skills in less demand.

Most noticeably, these forces have afforded greater income and opportunities to people living in areas with superior infrastructure, market access, and scale economies, such as coastal and urban areas.

Asian governments should respond to these challenges with policy measures that reduce inequality while not endangering economic growth. This includes spreading basic infrastructure more widely, rebalancing policies and regulatory frameworks so that sectors that are intensive users of labor—the most important asset of the poor—are not disadvantaged, increased spending on social programs, making



Indonesia's agriculture sector absorbs more than one-third of the labor force but grows slower than the broader economy.

BITTER HARVEST

Nowadays, when Wani Hayati Solehin prays, it's for higher onion prices

Six times a year, Wani Hayati Solehin plants a fresh onion crop, spending \$2,500 but making less than half that amount when she sells her produce. Sitting cross-legged on one corner of a dusty rug in her sparsely furnished living room, she says she struggles to feed her family.

The 41-year-old mother of three owns just half a hectare of land at Bojong Village on the island of Java. Falling onion prices due to competition from foreign imports means she sinks deeper into debt every year. She lacks the land and the know-how to switch to profitable crops, so she just prays for prices to rise.

Above her, on the wall, is a black and gold tapestry of Mecca. It is the focal point of the room and helps Wani, a devout Muslim, keep going during tough times. "We accept what we are given," she says. "Maybe this is a trial from God."

But her prayers have gone unanswered for years now. As Indonesia's economy liberalizes, many citizens are growing wealthier. Wani is among those who have not yet benefited, and she wonders whether or not life will ever get a little easier.

Wani's lot presents the flipside of globalization. While consumers enjoy cheaper onions and other food items, small producers like Wani are left stranded—unable to compete with such low prices yet usually incapable of switching livelihoods.

"Last year we did not even buy new clothes for the children for Eid. Buying clothes is a luxury."

-Wani Hayati Solehin, 41,
onion farmer and mother of three



Imported onions cost \$0.50 a kilo, half the amount local farmers need to break even. Smaller, locally grown onions like the ones Wani produces can't compete with larger, cheaper varieties from overseas. She spends \$15,000 a year to plant her crops, but makes only \$7,200 at the market. Add to this the rising cost of raw materials like seeds, fertilizer, and insecticide, all of which make life on the land increasingly unsustainable for some farmers.

Wani's two eldest children have finished high school, but she cannot afford to send them to university. She makes ends meet day to day through self-imposed austerity measures.

"Last year we did not even buy new clothes for the children for Eid. Buying clothes is a luxury." Wani wants more attention to be paid to the poor, many of whom are disadvantaged by global economic dynamics they often don't

comprehend. Governments face pressure to liberalize their economies on one side and protests from voters like Wani on the other.

Wani, however, hasn't lost hope. In fact, she believes that one day her family will enjoy a better life in a prosperous Indonesia. "Onion farming is the only thing I know," she says, glancing at the Mecca tapestry. "I have no choice but to continue doing this. I will keep trying to send my children to university. I pray their future will be better than mine."
BY NIDHI DUTT ■

the tax system work better and fairer, and targeting subsidies to those who are most in need.

In addition, programs should be directed toward regions most affected by inequality. They should focus on increasing connectivity to these regions, removing barriers to migration, and improving investments in human capital and access to public services.

As all three countries have recognized, it is vital to increase employment opportunities in order to address inequality. This can be done through growth that balances the needs of manufacturing, services, and agriculture, as well as by support for small and medium-sized businesses.

Removing policies that favor capital over labor would also help, as would public employment programs to temporarily fill gaps in private sector job creation.

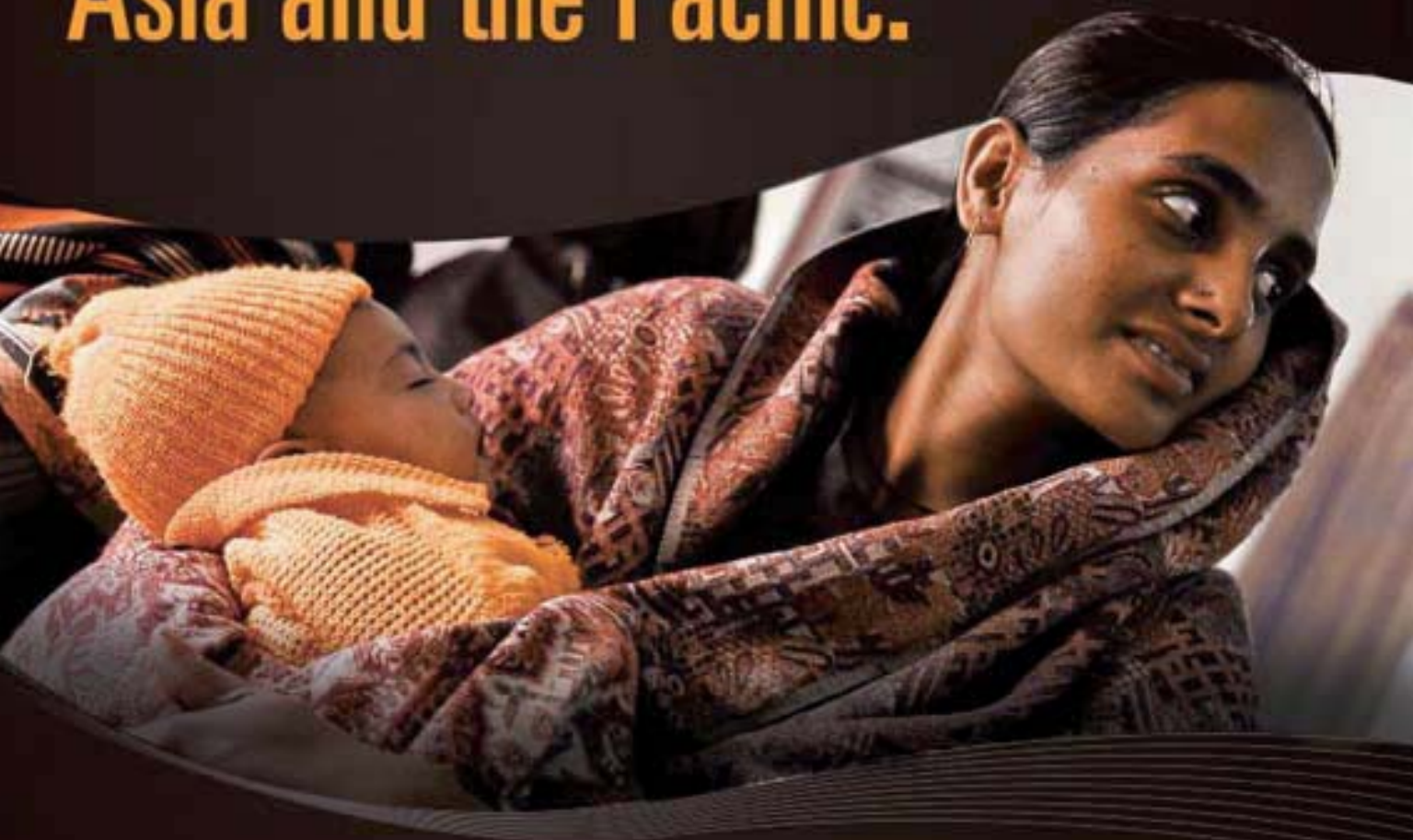
The Asia and Pacific region's strong economic growth has been undeniably positive for many of its citizens. But the region has not managed to emulate the example of the newly industrialized countries of the 1960s and 1970s—such as the Republic of Korea and Taipei, China—which were able to spread growth more broadly.

Moreover, the region has not kept pace with Latin America, which has high levels of inequality but has achieved some success in narrowing these inequalities since the 1990s.

Asia and the Pacific will continue to face global uncertainties that will challenge the efforts of governments to maintain strong economic growth. Rising levels of inequality are an additional vulnerability to the region's economies that warrants urgent action. ■

Edimon Ginting is Deputy Country Director, Indonesia Resident Mission of the Asian Development Bank (ADB). Rana Hasan is Principal Economist, India Resident Mission of ADB. Juzhong Zhuang is Deputy Chief Economist at the Economics and Research Department of ADB.

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NOW FOR THE HARD PART

PRC's widening wealth gap needs a bold new approach

By Justin Yifu Lin



Since switching from central planning to a market economy more than 30 years ago, the People's Republic of China (PRC) has staged a stunning economic resurgence. Annual gross domestic product growth has averaged 9.9% and annual growth in international trade, 16.3%. The PRC has transformed itself from one of the world's poorest countries into a high middle-income country. More than 600 million people have escaped poverty.

But this revival has been accompanied by an alarming increase in income disparity. The PRC was a relatively egalitarian society when it began its economic metamorphosis 3 decades ago. From 1990 to 2008, however, its Gini coefficient, a measurement of income inequality, increased from 32 to 43 according to Asian Development Bank (ADB) data.

The PRC's widening income disparity stems from its dual-track approach to becoming a market economy. On one hand, the government continues to provide protections and subsidies to nonviable state-owned enterprises (SOEs) in old capital-intensive priority industries that are not the PRC's comparative advantages. On the other hand, the government has exposed new labor-intensive industries to private sector participation, leveraging comparative advantages that were neglected before the market reforms.

The first track has helped the PRC avoid a transition collapse seen in some countries that embraced economic shock therapy, notably the elimination of subsidies and protections to nonviable firms. The second track enables the PRC's economy to be competitive in domestic and international markets and to maintain its dynamic growth.

The PRC has liberalized prices in almost all product markets. However,

the government retains various price distortions in factor markets in order to provide subsidies and protections to SOEs. Major measures include the deliberate concentration of financial services at the four large state-owned banks and at the equity market that serves primarily large companies. Additionally, royalty levies on natural resource industries are kept at a nominal level, and major service industries such as telecommunication and electricity are handed monopoly.

One result of this skewed financial structure is that small and medium-sized enterprises, which employ 80% of workers, have minimal access to financial services. This stifles their growth, curbs employment, and exerts downward pressure on wages. This means that ordinary wage earners and small and medium-sized companies have subsidized big corporations and the new rich through low wages and interest rates, contributing to widening income disparities. Nominal royalty levies and monopolies at key industry sectors further exacerbate gaps in earning power.

To improve income distribution, it is imperative that the PRC deepen market-oriented reform to remove distortions in factor markets and eliminate service sector monopolies. Necessary reforms include: the removal of policies that discriminate against small and local financing institutions including local banks, to boost access to financial services such as credit for family farms as well as small to medium-sized enterprises in manufacturing and services sectors; setting appropriate royalty taxes on natural resource industries; the elimination of barriers to entry and competition in the telecommunication and power sectors.

It is also the right time for the PRC to cancel the legacies of dual-track distortions. At the beginning of its transition to a market economy,

the PRC was a poor, capital-scarce economy. Factor market distortions and monopolies were required to deliver subsidies and protections to nonviable SOEs in key capital-intensive sectors. With the successful transition to a high middle-income country, comparative advantages now exist in many sectors including automobile and heavy machinery. These products are competitive in domestic and international markets. There is no reason to continue the subsidies and protections they currently enjoy.

In his report to the 18th National Party Congress last November, former PRC President Hu Jintao highlighted the need to "deepen economic structural reform ... and ensure that economic entities under all forms of ownership have equal access to factors of production in accordance with the law, compete on a level playing field, and are protected by the law as equals." Such reforms, to be planned and implemented by the new leadership, make it more likely that the root of the PRC's widening income disparities will be erased in coming years.

To improve income distribution, Hu called for achieving "efficiency and fairness in both primary and secondary distribution, with particular emphasis on fairness in secondary distribution." By putting equal emphasis on achieving efficiency and fairness in primary distribution (the distribution of income to owners of labor, capital, and natural resources in the production process) and fairness in secondary distribution (the distribution of income through transfers such as taxes), Hu signaled a marked change from past practice.

This is a positive sign. *Inclusive Growth: Toward a Harmonious Society in the People's Republic of China*, a 2008 report by ADB, recommends achieving efficiency and fairness simultaneously in primary income distribution by refocusing the economy on its comparative advantages, and eliminating product and factor market distortions. The PRC's new strategy of improving income distribution, coupled with a renewed commitment to structural economic reforms, is consistent with this advice and shows the government is serious about tackling inequality. ■



LESS UNEQUAL THAN OTHERS

Some Asian countries have grown without leaving anyone behind. Here's how they did it

By Philip Bowring

Why do some countries experience inequality, while others sidestep it? Widening wealth gaps are a major worry for governments throughout developing Asia. Middle-income countries like the People's Republic of China (PRC), Malaysia, and Thailand see wealth gaps as a threat to economic growth and stability.

Further widening of these disparities could eventually provoke social unrest as governments grapple with ways—such as tax hikes—to skew the system toward the less affluent.

The stakes are high. But a concerted anti-inequality program should be informed by how inequality has—and hasn't—evolved across the region.

Conventional wisdom views inequality as a by-product of rapid development, implying that

governments are all but powerless to stop it.

Yet the economies that powered Asia's economic miracle—Japan; the Republic of Korea; and Taipei, China—all showed relatively low and steady levels of inequality during their rapid growth.

These economies remain relatively equitable today, comparing well on inequality with the developed economies of the West. The Gini coefficients of the Republic of Korea and Taipei, China increased only marginally through the 1990s and 2000s. Their experience is salutary for similar-sized and less-developed economies looking to minimize inequality.

Avoiding inequality starts with getting agriculture right. Success in raising agricultural productivity is not just good for farmers. It underpins the entire process of industrialization. Getting agriculture right means addressing problems of ownership as well as investment in irrigation, roads, technology, and other infrastructure.

In the Republic of Korea and Taipei, China, post-1945 land reform spurred the first surge in rural productivity. In the PRC and Viet Nam, the return of family farming and price liberalization marked the first steps in the reform process and helped spur rapid rural growth. However, ownership issues may now be hampering further rises in productivity through consolidation of farms and a substitution of capital for labor.

After an initial surge in rural incomes in the PRC and in Thailand, they began to lag urban incomes driven by huge productivity gains from industrialization.

The Republic of Korea and Taipei, China did not follow this path. Why? Those governments put huge effort into rural development, focusing not only on using technology to boost land productivity, but also on making farm workers more efficient to release surplus rural labor to work at urban factories.

Additionally, these governments nurtured small-scale industries close to farming communities to create nonfarm earning opportunities.

In the Republic of Korea, this took the form of the *saemaul*, or “new village” movement. Moreover, early in their growth cycles they used import controls to keep farm prices above world market levels. While this solution would not work today, it helped to raise farm incomes at the expense of urban consumers.

“The *saemaul* movement had an impact,” says Donghyun Park,

urbanization reduced the size of the rural sector, ensuring that regional wealth disparities did not become a major drag on the economy.

Problematically, the rapid urbanization seen in the Republic of Korea and Taipei, China made possible by their early integration into the global manufacturing system cannot be replicated everywhere.

Large farm product exporters such as Thailand now face the challenge of ensuring healthy farm incomes without subsidizing prices. The PRC faces the same dilemma. Although

of secondary education rapidly per student, and universal access that underwrote a high degree of social mobility. In contrast, basic literacy issues have held back most of South Asia, while Southeast Asia presently grapples with the challenge of raising the standards of secondary and tertiary education.

Improving gender equality in education and social policies is another key to reducing income inequality—by bringing more women into paid labor.

Education is also a key to a solid manufacturing base. Without it, urbanization becomes merely a transfer of people from low-productivity farm jobs to low-productivity jobs in the informal services sector.

Manufacturing industries must reflect the supply of labor. Inequality rises when capital is cheap, funneling investment toward capital rather than labor-intensive industries. The cost of capital was mostly high in the Republic of Korea early in its development. Egalitarian industrialization also demands that plentiful labor does not boost formal sector wages much higher than those in the informal sector, due to minimum wage laws.

Once labor is no longer abundant, union demands for higher wages, along with better political representation, tend to reinforce equality and growth. Rapid wage rises, like those in the Republic of Korea since the early 1990s, add to growth by spurring consumer demand and forcing companies to improve productivity. The low wage route to industrialization is not appropriate once labor is no longer in surplus. Indeed, it stifles growth and increases income inequality as income accrues to capital owners at the expense of average households.

There are no easy answers to reducing inequality that comes with economic growth. But the fundamental lesson appears to be implementing the right policies early in the growth cycle. ■

Avoiding inequality starts with getting agriculture right. Success in raising agricultural productivity is not just good for farmers. It underpins the entire process of industrialization until the later stages of urbanization.

principal economist at the Asian Development Bank. “It allowed people in rural areas to do basic infrastructure improvements and help themselves. Many people still come to [the Republic of] Korea to learn about this.”

These achievements demonstrate the key role of government in setting goals and investing in transport, irrigation, and other infrastructure. They also show how small-scale industries can bring nonfarm employment to rural areas. Use of public funds to reduce regional spatial inequalities, as the PRC has done with its western region development strategy, can also yield dividends.

One corollary of success on the farm was extra manufacturing jobs at cities. In the Republic of Korea, further investments into industry fostered self-sustaining job creation. Rapid

farm exports are not significant for the economy overall, the nation’s sheer size requires a high level of food self-sufficiency.

For these middle-income countries, raising farm labor productivity remains a difficult but key hurdle in the way of higher rural wages.

“There’s a lot of scope for raising agricultural productivity in both [the People’s Republic of] China and India,” says Park. “It can be a relatively cost-effective way of improving rural incomes.”

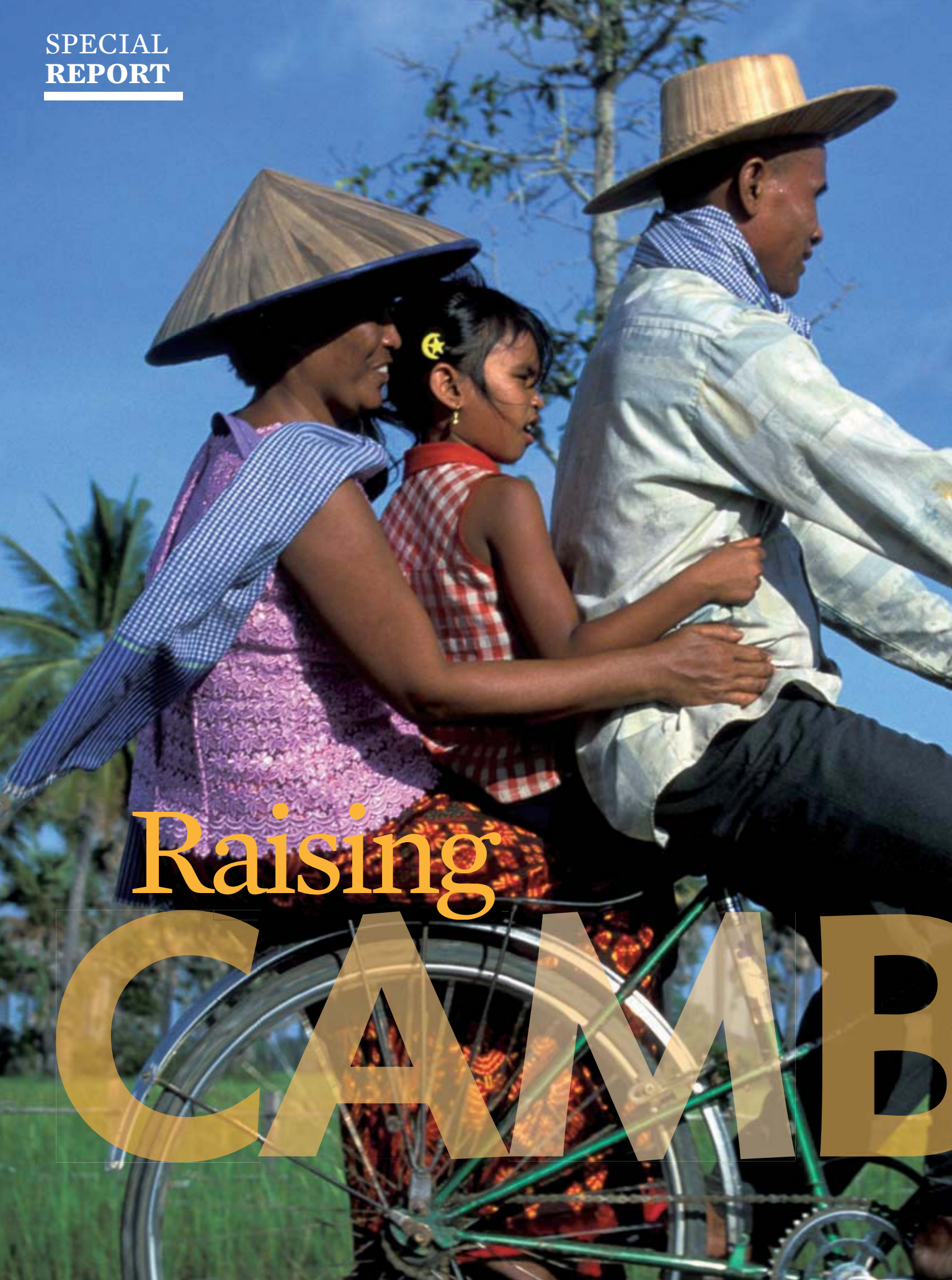
Investment in education and health is another key ingredient of inequality-light growth. After World War II, both the Republic of Korea and Taipei, China had higher levels of basic education and sanitation than most of Asia.

They built earnestly on those foundations, ensuring more years

SPECIAL
REPORT

Raising

CAMB



Cambodia is winning its battle against one of inequality's most tragic legacies: child mortality

By Luke Hunt

In the dusty village of Phum Thom, off Highway One linking Phnom Penh with Viet Nam, Siu Kimlong, a matronly 46-year-old woman sighs deeply. “Shoes, we need children to wear shoes.”

That shoes are her priority illustrates Cambodia's progress on reducing child mortality caused by inequality of access to decent health care. Not long ago, ensuring a child lived long enough to wear shoes was Siu's biggest challenge in her work for the government fighting mosquito-borne diseases. “Life has improved dramatically,” she says.

Child mortality in Asia and the Pacific is much higher among poor families, especially if they live in rural areas lacking health care facilities and qualified personnel.

In 1990, Cambodia had one of the world's worst mortality rates for children younger than 5. Out of every 1,000 children, 121 died before reaching that age, according to a 2011 report by the UN Inter-agency Group for Child Mortality Estimation. Villages swarmed with meningitis, beriberi, sepsis, and measles along with a host of other infectious diseases that caused malnutrition, pneumonia, and chronic diarrhea.

Making matters worse were limited access to modern health facilities, poor hygiene, and a local preference for village remedies over antibiotics and painkillers for postnatal women.

Cambodia's child mortality rate was the worst in the region, three to four times higher than neighbors Viet Nam, Thailand, the Philippines, and Indonesia, and approximately one-third higher than the global average.

But as United Nations (UN) programs under its Millennium Development Goals (MDGs) began to take effect, global mortality rates started to fall. Reducing deaths of children younger than 5 by two-thirds by 2015 is the fourth MDG, and the Government of Cambodia has been collaborating with UN agencies and international nongovernment organizations to reach that goal.

Since 1990, Cambodia's child mortality has fallen from 121 out of every 1,000 births to 51 in 2010, while infant deaths fell from 87 to 43, according to the UN Inter-agency Group. Neonatal mortality—death during the first 28 days of life—has dropped from 38 in 1990 to 22 in 2010.

BODIA

Since 1990, Cambodia's child mortality has fallen from 121 out of every 1,000 births to 51 in 2010.

By these numbers, Cambodia is right on the global average of 51 under-5 child deaths per 1,000 births, according to the United Nations Children's Fund (UNICEF), putting it on track to meet a UN goal to reduce child deaths to 39 per 1,000 by 2015.

"We've seen a massive improvement in recent years in Cambodia and it has surpassed its United Nations Millennium [Development] Goals for bringing down child mortality rates," says Dr. Carolyn Maclennan, a Cambodia-based consultant with the World Health Organization (WHO).

Cambodia's performance reflects significant regional and global progress on infant and child mortality.

Globally, nearly 7 million children died in 2011—more than 5 million fewer than in 1990. Infant mortality rates among the poorest 20% in Asia's urban areas fell from 81 to 51 per 1,000 births between the 1990s and the mid-2000s, according to WHO.

In the decade leading to 2010, according to the World Bank, Viet Nam's child mortality rate fell from 34 to 23 deaths per 1,000 births, while Thailand's eased from 19 to 13, and the Philippines, from 39 to 26.

Sam Phalla, a 26-year-old restaurant manager, faced an induced birth at a public hospital in Phnom Penh 3 years ago, when health care initiatives had started to bear fruit.

"I was worried my son wouldn't be healthy and that the nurse wouldn't do her job properly," says Sam. "After the birth I realized I did not need to worry so much. The nurse did her job and the birth went well."

But the inability of many Cambodians to afford good medical care or get to a decent clinic still

bedevils efforts to save children in rural areas, where 80% of Cambodians live.

"In Phnom Penh the mortality rate is lower than the average, while in the more remote areas it is a lot higher," says Dr. Maclennan.

CAMBODIA'S MODERN-DAY

struggle with child health can be traced to 1975 when the communist Khmer Rouge seized control and marched the entire urban population into the countryside to face a life of hard labor.

The Khmer Rouge's brutal reign had the unusual side effect of eradicating inequality, as private wealth and property were wiped out.

Tes Kimsan, now a sprightly 71-year-old, gave birth to her second child the same day the Khmer Rouge arrived. She was ordered out of her hospital bed to trek deep into the countryside.

"There were dead babies on the street and dead mothers with their babies. I was lucky. The village I went to liked me because I worked hard and they decided not to kill me. There was no medicine but they allowed me to breastfeed my baby when she cried."

By the time the Khmer Rouge was ousted in 1979, the damage had been done. For the next 20 years, Cambodia remained near the bottom of the international health heap.

Things began to improve in the late 1990s. With the support of the UN, the government launched immunization programs against a range of diseases to which children are prone, like polio and diphtheria.

By 2010 fully immunized children had increased to 79% of the population from 40%, while

breastfeeding rates climbed to 74% from 11%.

Early this year, Cambodia announced that it was on the verge of eradicating measles.

Polio has been virtually eradicated and malaria infection rates have dropped considerably, according to an Asian Development Bank working paper released in January this year.

In 2012, Cambodia launched a campaign to promote breastfeeding for children under 2 years old, and a joint program to reduce malnutrition among children, pregnant women, and lactating mothers was implemented in 2010.

Villagers living in places like Phum Thom now have access to clean running water, sanitation, electricity, modern medical centers, and sealed roads. A trip that might have taken 2 days a decade ago now takes only a few hours.

"The roads make it a lot easier to get medical help, and not so many people die now," says Siu.

"Cambodia is making progress," wrote Eng Huot, a secretary of state at Cambodia's Ministry of Health in an article published by *The Phnom Penh Post* in 2010. A comprehensive approach to eradicating potential deadly diseases was helping "save the lives of our children."

There is still a long way to go. The UN believes it will be at least another generation before Cambodia has an international standard of health care.

But progress has been made, and many lives saved especially in remote villages like Phum Thom. Siu Kimlong's work is not yet done, but for the first time in decades, she sees reason for hope. ■



IN SEARCH OF A CURE

Solutions aplenty, but
common ground is rare

By Anthony Rowley

As Asia's economic rise continues, the rich of the region are getting richer while the poor miss out on their fair share. On this point, there appears to be little dispute among policy makers, economists, and sociologists.

Views diverge, however, on what, if anything, can be done about it, at least in the short term.

The broader question, though, is this: Can rising inequality among individuals, communities, and countries be cured by policy interventions, or is it simply a part of the development process that needs to work its way through the system before diminishing?

"Over the past 2 decades, developing Asia has reduced poverty faster than any other region of the world, at any time in history," says the *Asian Development Outlook 2012*, a flagship economic publication of the Asian Development Bank (ADB). Focusing on inequality in Asia, the report notes that "the bulk of developing Asia's population lives in countries with rising inequality." This is in marked contrast

to recent trends in other developing regions, "in particular in Latin America where income inequality has been narrowing since the 1990s."

Concerns over rising inequality are widely shared. During the World Economic Forum in Davos in January, International Monetary Fund (IMF) managing director Christine Lagarde said that the economics profession and policy makers had downplayed inequality for too long.

"Now all of us, including the IMF, understand that a more equal distribution of income allows for more economic stability, more sustained economic growth, and healthier societies with stronger bonds of cohesion and trust," she said.

What is less clear, as Lagarde further noted, is how to achieve these goals. Universal access to decent education is the nonnegotiable starting point, she suggested. Social protection, credit access, and minimum wages could help.

"Above all, inclusive growth must also be job-rich growth. This is a symbiotic relationship—we need growth for jobs and jobs for growth. Right now, 202 million people are



Primary education helps reduce poverty, but access to college is what's crucial in giving the poor a fair chance at employment.

“Everything is geared toward skilled workers and the ‘winner takes all’ phenomenon. That naturally means that more rewards go to the more talented people.”

— **ADB chief economist Changyong Rhee**

looking for work and two in five of the jobless are under [the age of] 24,” she said, citing global figures compiled for 2013 by the International Labour Organization.

“Relieving this sense of desperation must be the overriding goal of everything we do.”

Ensuring that growth delivers jobs, and therefore income for all, is perhaps the closest thing to a silver bullet to beat inequality.

ADB chief economist Changyong Rhee refers to the inequality issue as the Achilles’ heel of Asian economies. He says the problem of job creation is a complex one.

Many Asian countries, Rhee says, “face a trade-off of having more rapid growth versus a more equal society. It’s more than a matter of having equal opportunity. If we look at recent technical progress and globalization, everything is geared toward skilled workers and the ‘winner takes all’ phenomenon. That naturally means that more rewards go to the more talented people.”

If growth momentum is to be maintained in Asian economies, then “free competition” must be permitted, Rhee suggested. But fiscal interventions are the starting point for any attempt to achieve income redistribution. Using taxes to finance “redistributive expenditures for the less advantaged groups seems to be the only solution. But how much this will hurt growth momentum is a question.”

Taxes are rarely popular and always difficult to impose. Rhee notes that progressive taxes that aim to redistribute income within a country can easily provoke opposition from vested interests.

He believes a value-added tax might be the best first step; though not progressive, it is easy to collect.

“In the 1960s and 1970s when the four ‘Asian dragons’ were growing very fast,” Rhee notes, referring to Hong Kong, China, the Republic of Korea, Singapore, and Taipei, China, “Asia enjoyed high growth together with improving inequality because at

that time technical progress was more labor-intensive and it favored blue-collar workers.

“But my belief is that technical progress has changed and also foreign competition makes the ‘winner takes all’ phenomenon much more prevalent. Even with high growth now, income inequality is rising.”

That makes it even more important that economic growth be accompanied by targeted interventions on education, health, and household finance, says Haoming Liu, a labor economist at the National University of Singapore.

“While rapid economic growth has successfully reduced the proportion of population living in poverty, it might not be an effective way [to] address the inequality issue. Providing opportunities to people from disadvantaged families is the key.”

Education, says Rhee, must be integral to any lasting solution: “Previously, we emphasized basic primary education and it was very effective in reducing poverty and in

protecting the very poor. But that does not solve the inequality problem. To solve that, we have to provide a chance for talented poor children to go to college. So rather than spending all of your revenue on primary education, you provide tertiary school subsidies.”

Is widening inequality simply an inevitable part of the development process? US economist Simon Kuznets has argued that inequality is a phase that an economy must endure on the road to maturity.

Since most of Asia leads the world on economic performance, is worsening inequality inevitable?

“Kuznets may have a point so far as ‘primary income’ distribution is concerned,” says Minquan Liu, a researcher on inequality issues at the

Asian Development Bank Institute (ADBI) in Tokyo. “In [the People’s Republic of] China, we distinguish between primary and secondary income distribution. Primary refers to [the] way in which income is distributed in terms of workers’ pay, capital, and land, while secondary refers to taxation and welfare payments.” The PRC has not done well in secondary income distribution, says Liu, citing the absence of a capital gains tax. “Revenue for central government has improved,” but the central government should pay more attention to social protection.

“Under the new fiscal regime since the mid-1990s, local governments are able to collect taxes and land sale proceeds, but they have a long list of social responsibilities.”

Poverty alleviation is an easier challenge than eliminating inequality, says Rhee. Poverty reduction programs often address the symptoms rather than the cause of the problem.

In calling for jobs-rich growth at Davos, Christine Lagarde laid emphasis on areas such as gender equality, noting a recent study showing that raising women’s employment rates to the level of men would lift GDP by 5% in the United States, 9% in Japan, and 27% in India.

Her broader point was that reducing inequality means leveling the playing field for people who are often excluded from growth. “We need all people to share in rising prosperity—and, by the same token, share fairly in any economic adjustment needed to achieve or restore prosperity.” ■

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SLUMS

Reconsidered

Slums may be eyesores, but they can also be dynamic economies in their own right

By Nirmal Ghosh

Saiyuud Diwong, a 38-year-old mother of two, was born in and grew up among the cramped lanes and fetid open drains of Klong Toey, the biggest slum in Bangkok, packing 80,000-100,000 people into 2 square kilometers. For years she spent long days cooking food at a roadside stall in the slum to bring home around \$4—barely enough to keep her two young boys clothed, sheltered, and fed.

Today, she is a successful entrepreneur, with tourists drawn to her cooking classes for an authentic Thai experience. Her story has been covered by international media and she has toured Australia giving cooking demonstrations, even appearing on Australian TV.

And she still lives in Klong Toey.

Saiyuud's story is remarkable but no longer exceptional. From Bangkok to Mumbai, long-established slum

communities may still be relatively miserable places to live in, but they are often essential components of the wider urban economy.

The double-edged nature of slums complicates the task of managing them in ways that minimize their negative impacts on the surrounding city, while improving the lot of their millions of residents.

The answer may hinge on strategies that build on the inherent strengths of slum life. There is no simple solution for the dilemmas posed by sprawling slums. But strategies focused on equitable development, especially for children—and community-based action rather than solutions based on generalizations imposed from outside—are increasingly finding favor.

Almost 1 billion people, or 32% of the world's urban population, live in slums mostly in the developing world, according to UN-Habitat.

The old stereotype of slums as huddled shanties riddled with disease, crime, drugs, and violence still holds true in key respects. Slums can be miserable and dangerous. In February 2012, United Nations Children's Fund (UNICEF) Executive Director Anthony Lake wrote, "An increasing number of children living in slums and shanty towns are among the most disadvantaged and vulnerable in the world, deprived of the most basic services and denied the right to thrive."

But this reality masks an alternate view of slums as vibrant economies that make a little-noted contribution to the larger urban society around them.

UN-Habitat has identified a unique sense of community at slums linked to their status as the first stopping point in otherwise expensive cities for rural-urban migrants.

"Against all odds, slum dwellers have developed economically rational





and innovative shelter solutions for themselves,” UN-Habitat says in a 2003 report titled *The Challenge of Slums*. “Most slum dwellers are people struggling to make an honest living, within the context of extensive urban poverty and formal unemployment.”

The report marked a change in attitudes toward slums by challenging clichés underpinning policy making that disparaged slum communities as eyesores and sordid dens to either be evicted or at best “redeveloped.”

Instead, says UN-Habitat, policy should refocus on “in-situ slum upgrading” rather than resettlement of slum dwellers—a view that has gained traction and, in some cases, has been reflected in policy.

Policies focused on upgrading are partly premised on the economic value of slums. Mumbai’s Dharavi—reputedly Asia’s biggest slum at close to 1 million people living in only 1.6 square

kilometers—has long been recognized as an economic engine. It has produced its fair share of millionaires and an economic output estimated at \$600 million to over \$1 billion.

In an article last year, *The New York Times* aptly described Dharavi as a “self-created special economic zone for the poor.”

Likewise, Klong Toey churns out legions of young people who smile over counters at customers in thousands of bars, shops, and cafés in Bangkok. This riverside community supplies some 5,000 daily wage earners for the port facilities on its doorstep.

Saiyuud encapsulates this aspirational energy. Her family now owns a van to ferry tourists from their air-conditioned hotels nearby to her kitchen, recently upgraded with air conditioners. She now employs 3 to 10 people every day.

All Saiyuud needed was a spark, which was delivered by Anji Barker,

an Australian from Dandenong near Melbourne who has lived in Klong Toey for 10 years and has been working for a Christian organization as a teacher in a local school. Baker had the idea of converting her roadside stall into a tourist draw.

Bangkok and Mumbai offer good examples of entrenched urban slums. Both are port cities, with the slums rising partly as living quarters for dock construction workers and becoming permanent fixtures. Both are economic hubs, drawing young people who dream of making it in the big smoke. One penniless young man who moved to Mumbai grew up to become the wildly popular film star Shakrukh Khan.

Dharavi, immortalized by the 2008 film *Slumdog Millionaire*, is a hive of activity with distinct neighborhoods and informal networks and hierarchies. It forms a microcosm of India’s economy, with small workshops producing a

range of items from daily ready-to-eat meals for professionals across the city, to luggage trolley wheels that trundle around airports across the world.

“Dharavi exemplifies it, but there are other slums where a lot of work goes on, and it’s a huge employment hub so you can’t just treat it like a housing project,” says Kalpana Sharma, columnist and author of the book *Rediscovering Dharavi: Stories From Asia’s Largest Slum*.

Unfortunately, slums like Dharavi too often get the housing project treatment.

Innovative redevelopment plans for Dharavi first drawn up in the mid-1990s are still stuck on the runway. Located deep inside the core of the sprawling city of 13 million, Dharavi is a potential real estate gold mine. Anticipating redevelopment, speculators bought up houses; some 60% of people living in Dharavi are now tenants. They include young professionals and executives saving on the sky-high rents in more salubrious districts.

“What the plan essentially did was parcel off the land on which Dharavi’s residents...have lived and even prospered for several generations, to private developers,” wrote Sharma in *The Hindustan Times* in December 2011.

“Dharavi’s people would get their houses, the government would get the funds to lay the infrastructure, and the private developers would go home happy with profits from lucrative commercial property. Everyone would be happy.”

Nothing of the kind happened, she wrote. An economic slowdown forced the government to pause. But expectations remained among residents that they, too, would one day live in a new high-rise apartment block.

Further complicating matters, the plan has helped launch Dharavi’s land prices into the stratosphere. Enticed by visions of a new middle-class suburb, construction companies and loan sharks moved in to buy out local residents.

“The latter can hardly be blamed,” says the original proponent of the Dharavi Redevelopment Plan, Mukesh

Mehta. “When your one asset is your *jhopdi* (shack), you are not going to ignore a tempting offer for a lot of money.”

The end result? Development has taken place in pockets and along the main roads at the slum’s fringes. But areas deep inside Dharavi are exactly the same as they were 20 years ago.

THE DHARAVI EXPERIENCE

illustrates the intractability of Asia’s slum problem. The Asian Coalition for Housing Rights (ACHR), in an October 2011 report on its Asian Coalition for Community Action (ACCA) program in 150 cities throughout 15 Asian countries, said: “It’s no exaggeration to say that most externally propagated development interventions—by governments, NGOs, and development institutions—no matter how well intended, are failing miserably to provide the solutions that are needed.”

The ACHR blamed “scattered, supply-driven projects,” which “are not even coming close to responding to the real dynamics or the real scale of the problems of poverty, land, and housing in Asian cities.”

The ACCA focuses on helping slum dwellers design solutions at the grass roots. In 2011, Mike Shanahan of the International Institute for Environment and Development wrote: “ACCA has allowed people to take charge of their own development and make changes as quickly as possible and on a city-wide scale. This contrasts with the islands of development that governments and donors tend to create, and which rarely engage poor people as active participants.”

Across Asia, ACCA’s investment of \$2.3 million has unlocked \$35.6 million worth of government land for poor people’s housing, says ACHR.

This type of community-led approach is a key to successful slum redevelopment, experts say.

“The key is primarily to have as much participation from the affected community as possible,” says Jeff



Extralegal settlers share with wealthier citizens the desire for a stable, happy life.

Wong, an anti-eviction coordinator for Leaders and Organizers of Community Organizations in Asia, a group of community leaders supporting slum dwellers. “The system is loaded against them; the solution is to give them the tools—education and access to capital, for instance.”

Another key issue is property rights. Slum dwellers exist in a permanent state of insecurity, which breeds short-term thinking. When speculators bought shacks in Dharavi, the deals were off the books because original “owners” lacked title deeds. The property market remains a gray market free for all where cash is king and uncertainty a way of life. That kind of environment fosters a day-to-day, edge-of-seat existence.

“A certain cultural poverty can emerge in which people don’t think long term; they internalize the temporary nature of their neighborhood,” says Ashley Barker, international director of the Christian organization Urban Neighbors of Hope. Barker, whose wife



“Most slum dwellers are people struggling to make an honest living, within the context of extensive urban poverty and formal unemployment.”
—UN-Habitat report, *The Challenge of Slums*

Anji helped Saiyuud rise to fame, has written six books on slums and poverty and is working on a seventh, *Slum Life Rising*.

SLUM DWELLERS MAY THINK their lives are transient, and at an individual level they may well be. But the reality is quite different at the community level. Almost all slums have roots in rural-urban migration. The UN’s *State of the World’s Population 2007* noted that efforts to curb or regulate this migration have proven futile.

As a result, slums are becoming as embedded as upscale neighborhoods in the urban social fabric. In his 2000 book *The Mystery of Capital*, economist Hernando de Soto wrote, “The extralegal settlements the migrants inhabit may look like slums, but they are quite different from the inner-city slums of advanced nations.

“In the developing world, the basic shelters of the poor are likely to be improved, built up, and progressively

gentrified. Whereas the houses of the poor in advanced nations lose value over time, the buildings in the poor settlements of the developing world become more valuable, evolving within decades into the equivalent of working-class communities in the West.”

He notes that, contrary to their lawless image, extralegal settlers share the desire of civil society to lead happy and productive lives.

A major absence from these lives is property rights. Quoting eminent historian Richard Pipes, de Soto identifies private property as the single most important factor of social and political integrations as it helps create a commitment to “the political and legal order.”

Barker agrees: “Because slums are outside the law in a sense, some other power will fill the vacuum. Wherever you have slums, you have organized crime preying on them. Slums are complicated, and land rights are

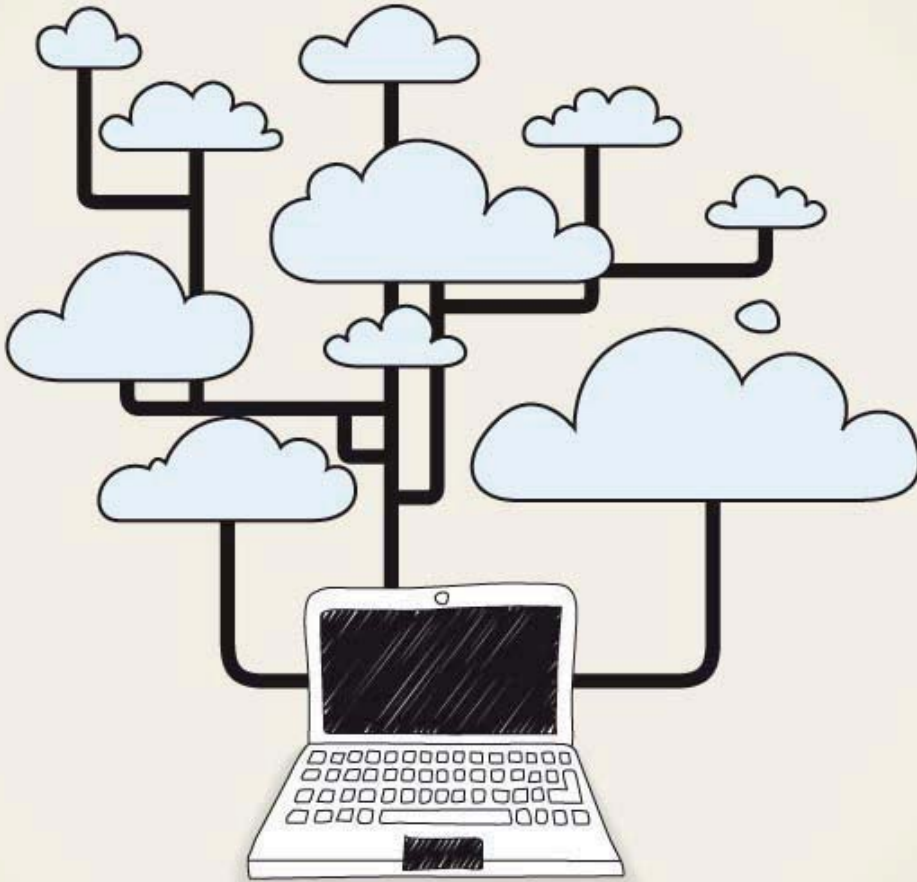
important, because then you can plan, and you can look at infrastructure.”

He cautions against a naïvely romantic view of slums. “The idea is to have the sense of community—but it should be a healthy place as well.”

Most, if not all, slums fail on that count. UN-Habitat characterizes slum life as the “most intolerable of urban housing conditions”—from insecurity of tenure to lack of basic services, unsafe structures, overcrowding, and hazardous locations.

Solving this riddle, however, requires deeper thought about what slums represent to the people who live in them. At Dharavi and most other slums, “listening to residents might be a good place to start,” says Kalpana Sharma.

“In Mumbai, each slum area has its particular genesis and kind of people who live there and the work they do, or don’t do. You have to make sure that whatever is done in terms of re-housing them is what works for them.” ■



DIGITAL DOLLARS

Thousands of people in developing countries are earning real money working in virtual worlds

By Floyd Whaley

Maria worked as a teacher in Islamabad, Pakistan until she gave birth and needed to stay home to take care of her child. Once she left her teaching job, she hoped to find another way to earn but had few options. “For women in Pakistan, our choices for working outside the house are limited,” she said in an interview.

With a college degree and skills as a writer, she responded to an advertisement on a Pakistan website offering freelance opportunities writing content for websites in the United States (US). Before long, she was earning the equivalent of \$400 a month—more than three times her salary as a full-time school teacher.

Maria was able to offer her skills to companies on the other side of the world and improve her family’s financial situation through the nonprofit organization Samasource.

The organization connects underprivileged people with work via the internet by providing a variety of services to clients in the US.

Some of these clients are high-profile outfits like LinkedIn and the US State Department. It maintains a sales office in San Francisco and work centers in Haiti, India, Kenya, Pakistan, South Africa, and Uganda, in partnership with local entrepreneurs. In Africa, some work stations are adjacent to refugee camps.

On its website, Samasource says that it brings dignified, computer-based work to women, youth, and refugees living in poverty.

The organization is a leader in using the digital economy to bring income opportunities to the poor around the world, but it is not alone. Digital work—sometimes called micro work or virtual work—is a fast-growing employment opportunity for people in developing countries.

This emerging industry even encompasses online gaming, with people in the developing world accumulating points for gamers located mostly in developed countries. This increasingly popular but controversial practice was worth an estimated \$3 billion globally in 2009 according to a study funded by the Department for International Development (DFID) of the United Kingdom.

Amassing spoils such as gold or farmland in games like *Farmville*, which are then turned over to a player in the

developed country for a fee, is called “gold farming.”

It sounds like harmless and profitable fun. But it has been linked with sweatshop conditions for the gamers in developing countries, and has spurred lawsuits against gold-farming companies by game makers. It has also been blamed for a variety of social ills among young people, a concern that prompted the Republic of Korea to announce a ban in 2012 on the trade of virtual goods for real money.

Other potentially negative aspects of micro work include companies hiring intermediaries that contract legions of Facebook users in developing countries to click “Like” on their corporate pages. This drives up the ranking of those companies in Facebook search results, but also dilutes the value of actual users’ opinions.

Those seeking to use micro work for development purposes should be careful to monitor the activities of their partner organizations, says Vili Lehdonvirta, a researcher at Helsinki Institute for Information Technology who has studied the issue.

“Entrepreneurs should focus on digital micro work that benefits society,” she says. “Examples include transcribing books, translating documents, and improving search-engine results.”

When undertaken responsibly, micro work can provide income for people in developing countries on par or exceeding farm or mining work, as well as being considerably less physically taxing and dangerous.

“Today, a growing mesh of digital services is giving rise to a new layer of entrepreneurial opportunities with very low entry barriers,” said Valerie D’Costa, program manager with *infoDev*, a grant program that has partnered with the World Bank on information and communication technology.

MICRO WORK, ALSO CALLED

impact sourcing, generates an estimated \$4.5 billion in revenue worldwide; \$1.2 billion of this is

estimated to reach about 144,000 workers as employment income. This is estimated to increase to \$20 billion, with half of that going to 780,000 workers by 2015.

“Thousands of men and women in countries such as India and Kenya earn primary and supplementary income by completing simple human intelligence tasks, such as assessing whether two images are of the same product, or transcribing a fragment of handwritten text,” states the 2011 *infoDev* report *Knowledge Map of the Virtual Economy*.

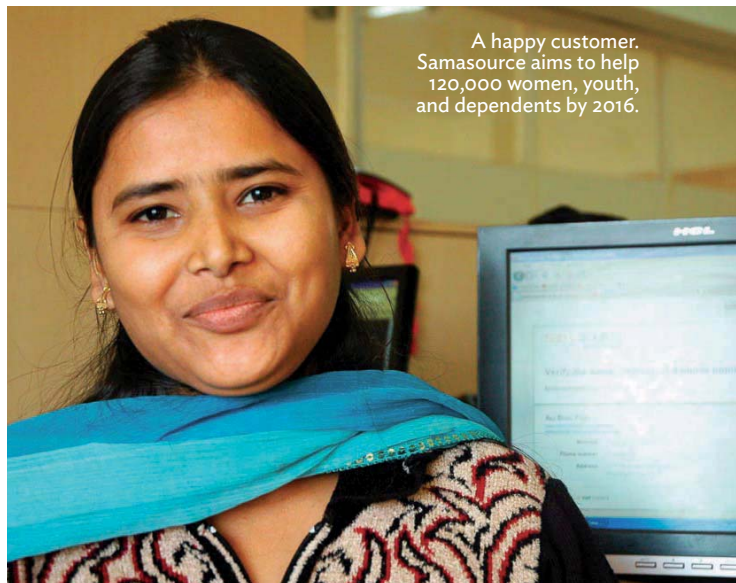
Large companies such as Amazon have found that computers are not able to do many simple tasks required to power their complex digital operations. Micro work can be as simple as labeling photos or as complex as writing text.

“Impact sourcing employment provides measurable increases in income levels,” notes *Job Creation Through Building the Field of Impact Sourcing*, a working paper published by the Rockefeller Foundation in 2011. “The benefits of formal, stable employment also increase family investment in health care and education.”

ACTIVITIES ON THE HIGHER

end of the pay scale, such as marketing and quality control, are done in developed countries where the “customer-facing” operations are centered. Lower labor costs are what draw businesses to workers in developing countries, so incomes are not likely to rise quickly.

“For a sustained development impact, it may be necessary for micro work entrepreneurs in developing countries to find ways to upgrade their



A happy customer. Samasource aims to help 120,000 women, youth, and dependents by 2016.

positions in the value chain, and to offer a more diverse range of services with higher value added,” notes *Knowledge Map of the Virtual Economy*.

Gaming can generate dividends untainted by social and legal complications. “All aspects of the third-party gaming services value chain, from production to marketing, can now apparently be carried out from countries such as [the People’s Republic of] China and the Philippines,” the report states.

“As a result, the industry may employ as many as tens of thousands of skilled customer service and management staff in these locations.”

The development community can support micro work and virtual economy work in developing countries by focusing on activities that offer social benefits—in other words, support tasks that fill a legitimate need or add value to a company or process.

One potentially important role of development organizations is to support the role of mobile phones in micro work.

“There are real earning opportunities in the virtual economy that will become accessible as mobile technology develops,” said Tim Kelly, lead ICT policy specialist at *infoDev*. “This could significantly boost local economies and support further development of digital infrastructure in regions such as Africa and Southeast Asia.” ■

Where there was once only darkness...



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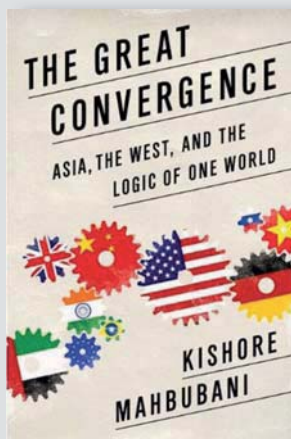
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**THE GREAT CONVERGENCE:
ASIA, THE WEST, AND
THE LOGIC OF ONE WORLD**

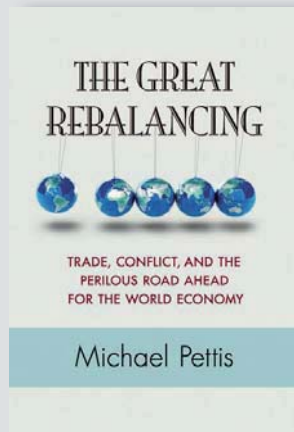
By Kishore Mahbubani, Public Affairs, February 2013, **\$26.99.**

The fourth book by Kishore Mahbubani, a Singaporean former diplomat, calls for an update of the global rule-based order to account for the rise of Asia. He expresses faith in those rules, but also concern that the institutions enshrining them properly reflect the ongoing power shift toward Asia.

Mahbubani is a professor of public policy and dean of the Lee Kuan Yew School of Public Policy at the National University of Singapore. He served for more than 3 decades with the Singapore foreign service.

“... Mahbubani’s essential argument is not for the creation of new institutions that enshrine the global power shift, but rather closing the ‘democratic deficit’ by filling up the old bottle of the West’s rule-based system with the new wine of the rising rest. For Mahbubani, the old institutions should remain, but under new management.”—**South China Morning Post**

“For all the ‘clash of civilizations’ that defines the modern era, Mahbubani argues, things aren’t necessarily all that bad out there. ... The trick now, writes the author, is to shed ideas of supremacy. ... Mahbubani offers practical steps, including a recomposition of the UN Security Council to encourage one-worldism. ... An interesting exercise in geopolitical wonkiness.”— **Kirkus Reviews**



**THE GREAT REBALANCING:
TRADE, CONFLICT, AND THE
PERILOUS ROAD AHEAD FOR
THE WORLD ECONOMY**

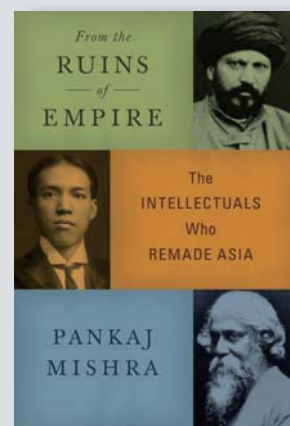
By Michael Pettis, Princeton University Press, January 2013, **\$29.95.**

As a former banker teaching economics in the People’s Republic of China (PRC), Michael Pettis is well placed to pronounce on the ills of the global economy. In *The Great Rebalancing: Trade, Conflict, and the Perilous Road Ahead for the World Economy*, he offers new food for thought on how the global economy might regain equilibrium.

Pettis is a senior associate at the Carnegie Endowment for International Peace and a finance professor specializing in PRC financial markets at Peking University’s Guanghua School of Management.

“One country’s trade deficit must be matched by other countries’ surpluses, and cannot be blamed only on a deficit country’s supposed failings. ... These arguments are familiar. But Pettis’ book stands out in its emphasis on the surplus countries’ responsibility for producing these imbalances—and the role they should play in correcting them.”— **Financial Times**

“A painful reckoning awaits an out-of-whack global economy, according to this insightful treatise... Pettis’ erudite, but lucid and very readable, analysis brims with surprising ripostes to conventional wisdom ... he thinks excessive national thriftiness is at least as sinful as extravagant consumption.”— **Publishers Weekly**



**FROM THE RUINS OF EMPIRE:
THE INTELLECTUALS WHO
REMADE ASIA**

By Pankaj Mishra, Straus & Giroux, November 2012, **\$27.00.**

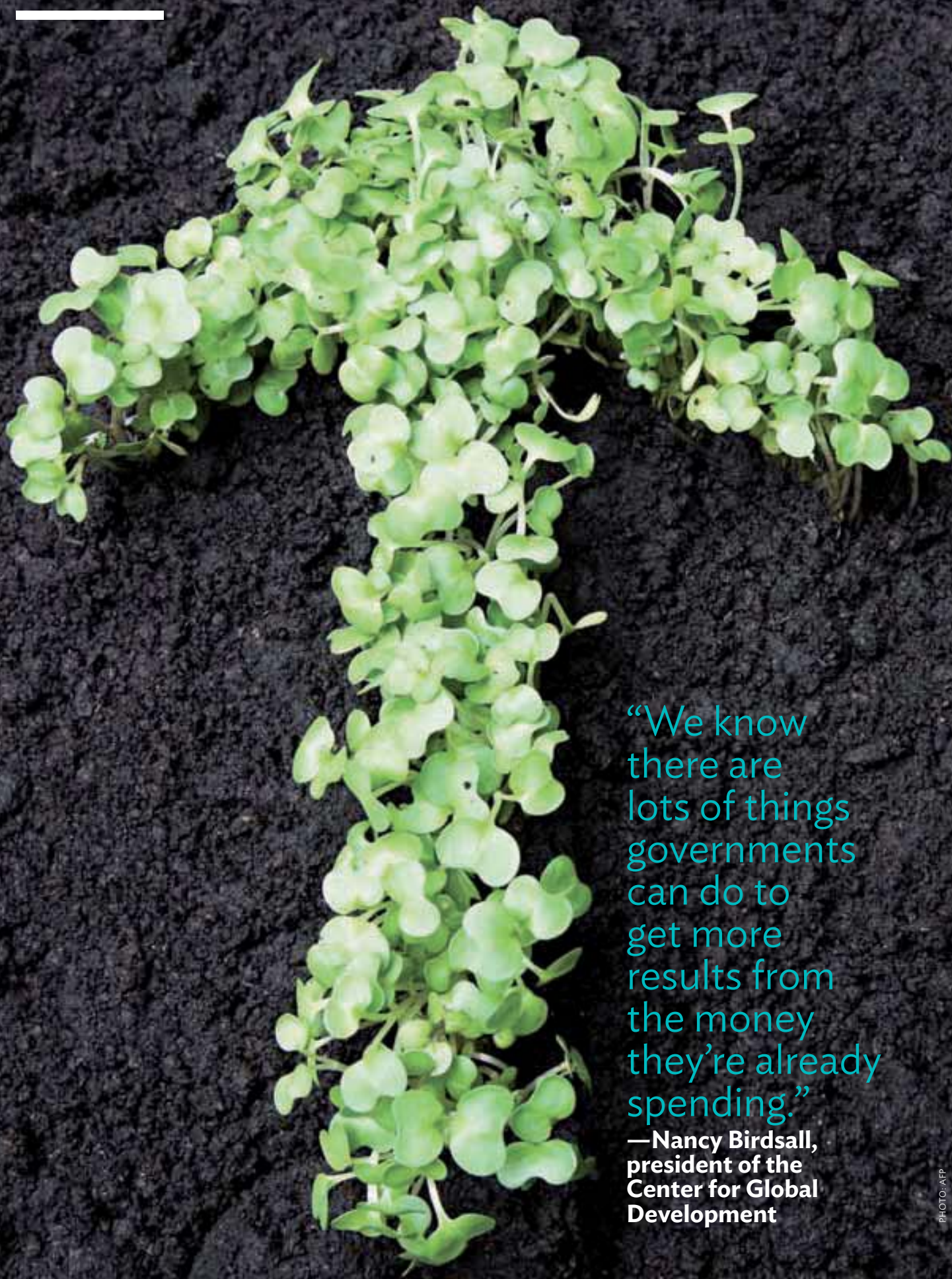
How should Asia respond to modernity? This question animates Pankaj Mishra’s latest book, which chronicles Asia’s cultural clash with Western colonial powers through the life stories of three Asian thinkers: Persian activist Jamal al-Din al-Afghani, Chinese reformer Liang Qichao, and Indian poet Rabindranath Tagore.

Mishra is an Indian writer of fiction and non-fiction. He also writes political and literary essays for Indian, British, and US publications.

“Mishra ... shows how, like their European and American counterparts, Asian intellectuals of the 19th and 20th centuries responded to the colonial encounter by constructing a binary opposition between East and West.... Mishra’s astute and entertaining synthesis of these neglected histories goes a long way to substantiating his claim that ‘the central event of the last century for the majority of the world’s population was the intellectual and political awakening of Asia.’”

— **The New York Times**

“It has become commonplace that Asia is once more becoming economically and politically confident. Mishra’s book is an invaluable companion to that process because of its detailed and rigorous historical emphasis...” — **The Times Literary Supplement**



“We know there are lots of things governments can do to get more results from the money they’re already spending.”

—Nancy Birdsall,
president of the
Center for Global
Development

RESULTS FIRST

An innovative development aid model enables donors to pay for results over inputs

By William Branigin

After decades of development aid programs that rigorously tracked expenditures and prescribed implementation procedures, a new approach is gaining traction—one that pays for results rather than input.

The new focus aims to ensure that funds delivered to development assistance programs lead to on-the-ground progress. This is done by linking assistance payments to results, marking a departure from the standard practice of paying once evidence is provided of spending on program inputs—an often-illusory measure of progress.

A groundswell of support for quantifiable results over the past 2 decades has gathered strength amid global economic turmoil that has pushed governments toward fiscal austerity and foreign aid cutbacks.

Linking payments to measured results makes it more likely that aid objectives will be met even in uncertain economic times.

Bilateral development agencies such as the United Kingdom's (UK) Department for International Development (DFID) have been quick to embrace the results agenda. Their multilateral cousins—most notably the Asian Development Bank (ADB) and the World Bank—have followed suit by enshrining results-based funding in their aid and financing activities.

This year ADB will begin a 6-year pilot of results-based lending for government-owned sector programs.

Three years in the making, the results-based lending program will impact every stage in the lending process.

Program design will include assessments of program systems before launch; results will be verified over the course of the program; and a new focus on institutional development at recipient countries will ensure that program systems – the crucial building blocks of successful programs – are as strong as possible.

A strong focus on results was a core theme at ADB under former President Haruhiko Kuroda, who left the bank in March this year. In a speech last September, he called for “a sharper focus on results, to more effectively meet the needs of our Developing Member Countries (DMCs). We need to take our efforts to the next level to ensure that every ADB project and program measurably enriches our DMCs – and especially the lives of the poor.”

The World Bank has made a similar journey toward results-based programs. In 2012 it unveiled its Program for Results, which demands more accountability from partner countries in return for funding aimed at delivering positive results long after the bank's involvement has ended.

THE QUEST FOR better results has been a core theme of development financing since the 1990s. At successive international development forums over the past decade, development agencies have committed to enhancing

the effectiveness of programs by sharpening their focus on results.

Results-oriented programs still mean different things to different people, and go by a variety of different names, explains Mark Pearson, an aid effectiveness specialist at London-based health sector consultancy firm Health and Life Sciences Partnership (HLSP), in a recent paper.

What they have in common, he notes, is a commitment to paying only for achieved results. In recent years the emphasis has been on country ownership of programs, in the context of jointly agreed strategies and goals.

A formative influence on these programs has been an aid model called Cash on Delivery (COD), which was pioneered by the Center for Global Development (CGD), a nonprofit think tank based in Washington, DC.

The CGD first proposed what came to be known as “COD aid” in a paper, *Payments for Progress: A Hands-Off Approach to Foreign Aid*, published in 2006. “Donors would bind themselves as a group to pay a specific amount for clear evidence of progress against one or more agreed goals in low-income developing countries,” it said. “Payments would be determined as a function of the outcomes, and not linked to the implementation of any particular policies, any other intermediate outputs, or ‘tied’ to purchases from particular suppliers or companies.”

The center developed the proposal in a 2010 book, *Cash on Delivery: A New*

The recipient would be free to devise its own means of achieving the result, but the donor would contract with an independent third party to verify the measure of progress that triggers payments.

Approach to Foreign Aid. It outlined an application to primary schooling in which a contract would be signed for a donor to pay a recipient government for a measurable outcome, such as an “assessed completer”—defined as a student enrolled in the last year of primary school who takes an approved standardized assessment test.

In this example, the funder would agree to pay \$20 for each assessed completer up to the total enrollment in a base year and \$200 for each additional assessed completer over 5 years. Payments would be offered regardless of test scores to minimize the temptation to misreport progress or teach to the test—recurring problems with high-stakes testing worldwide.

Under the “hands off” approach at the core of the proposal, the recipient would be free to devise its own means of achieving the result, but the donor would contract with an independent third party to verify the measure of progress that triggers payments. The COD aid contract would be publicly disseminated to encourage scrutiny and transparency.

According to Birdsall, COD aims to change the relationship between donor and recipient countries. Goals are simplified so they can be broadly understood, allowing the recipient government to choose the best way to achieve them.

This is intended to increase local accountability while reducing transaction costs and encouraging innovation. The program also scraps complex mechanisms so that no aid money goes astray through corruption and other diversions; instead, it relies on civil society to hold the beneficiary government accountable.

“It’s the government that takes responsibility and takes the risk associated with trying to achieve a specific outcome,” Birdsall said in an interview. “We know there are lots of things governments can do to get more results from the money they’re already spending.”

THERE’S BROAD CONSENSUS on that point, but less agreement on whether current results-based models offer the best solutions.

Critics worry that funding agencies may impose demands for quick and concrete results as if development were always a linear, cause-and-effect process. Lasting improvements

usually develop over time as a result of many factors and stakeholders. This, it is argued makes value-for-money evaluations difficult and sometimes misleading.

“The concern across the NGO sector is that it pushes you toward doing what’s measurable rather than what’s important,” said Duncan Green, head of research at Oxfam Great Britain.

In a paper on COD aid, Paolo de Renzio and Ngaire Woods of the University of Oxford argued that the new mechanism “is fraught with potential contradictions, and still needs to be validated by solid empirical evidence.” Among other pitfalls, they said the program “may lead to distortions in resource allocation and attempts to manipulate the data.”

However, those who support closer tracking of impact and results contend that improvements in the way data is collected can make complicated projects more quantifiable. They also hold that development agencies have a duty—not just to the accountants back at the home office, but to people struggling to escape poverty—to aim higher and use their limited resources in the very best way possible.

“You can’t just take people at their word that what they are doing is transformative and a better use of resources than something else. They have to have some evidence. Otherwise, it’s like a religious argument,” said Claire Melamed, head of the growth and equity department at the Overseas Development Institute, a UK think tank. “Just because measuring something is difficult doesn’t mean they should give up before they even start.”

Criticism of the focus on results begs the question “whether any foreign assistance can make a difference,” according to William Savedoff, a senior fellow at the CGD. “People who design, fund, and implement aid programs are more comfortable with rewarding effort than rewarding results, despite all the rhetoric to the contrary. Yet our ability to measure ‘effort’ is probably much worse than our ability to measure outcomes.”

This ability to measure outcomes is particularly strong in health and education. Accordingly there has been a strong focus on these areas by development agencies.

The GAVI Alliance (formerly the Global Alliance for Vaccines and Immunization), a nonprofit public-private



Financial incentives have been found to improve performance in maternal and child health programs.

partnership based in Geneva and Washington, has been using pay-for-results programs for a decade to immunize millions of children in 53 of the world's most impoverished countries. DFID is funding a results-based pilot project in Ethiopia to get more girls to complete secondary education.

A paper published in February by researchers from the Massachusetts Institute of Technology and the World Bank suggested that results-based models hold promise, particularly in health. The paper described an experiment in more than 3,000 Indonesian villages to “test the role of performance incentives in improving the efficacy of aid programs.”

The experiment found that financial incentives helped improve performance in maternal and child health programs and that there was “little downside” from the payments—that is, no evidence of multitasking problems, manipulation of records, or the channeling of funds to richer areas.

But the study found “no differential impact of incentives on education.”

The World Bank has approved a 2-year phase of Program for Results that limits programs to 5% of the bank's annual lending, or about \$2 billion a year. This is estimated to be enough for 10 to 20 programs a year, depending on their size. “The development landscape has changed,” the World Bank said in a paper on its program.

Among 34 client countries included in consultations last year on the proposed program were Indonesia, the Lao People's Democratic Republic (Lao PDR), the Philippines, and Viet Nam. The ADB was one of nine development partners consulted.

Among the first 6 programs that used Program for Results financing in the first year after its approval are a \$200 million rural water program in Vietnam, and a \$60 million bridge maintenance and construction project in Nepal.

“It's only the third type of lending instrument that they've had in their history, so it's potentially a rather large departure,” said Lawrence MacDonald, CGD vice-president for communications and policy outreach.

Similarly, ADB has framed its results focus as a potential win-win for all parties, delivering cost-effective development outcomes as well as better operations and stronger recipient institutions.

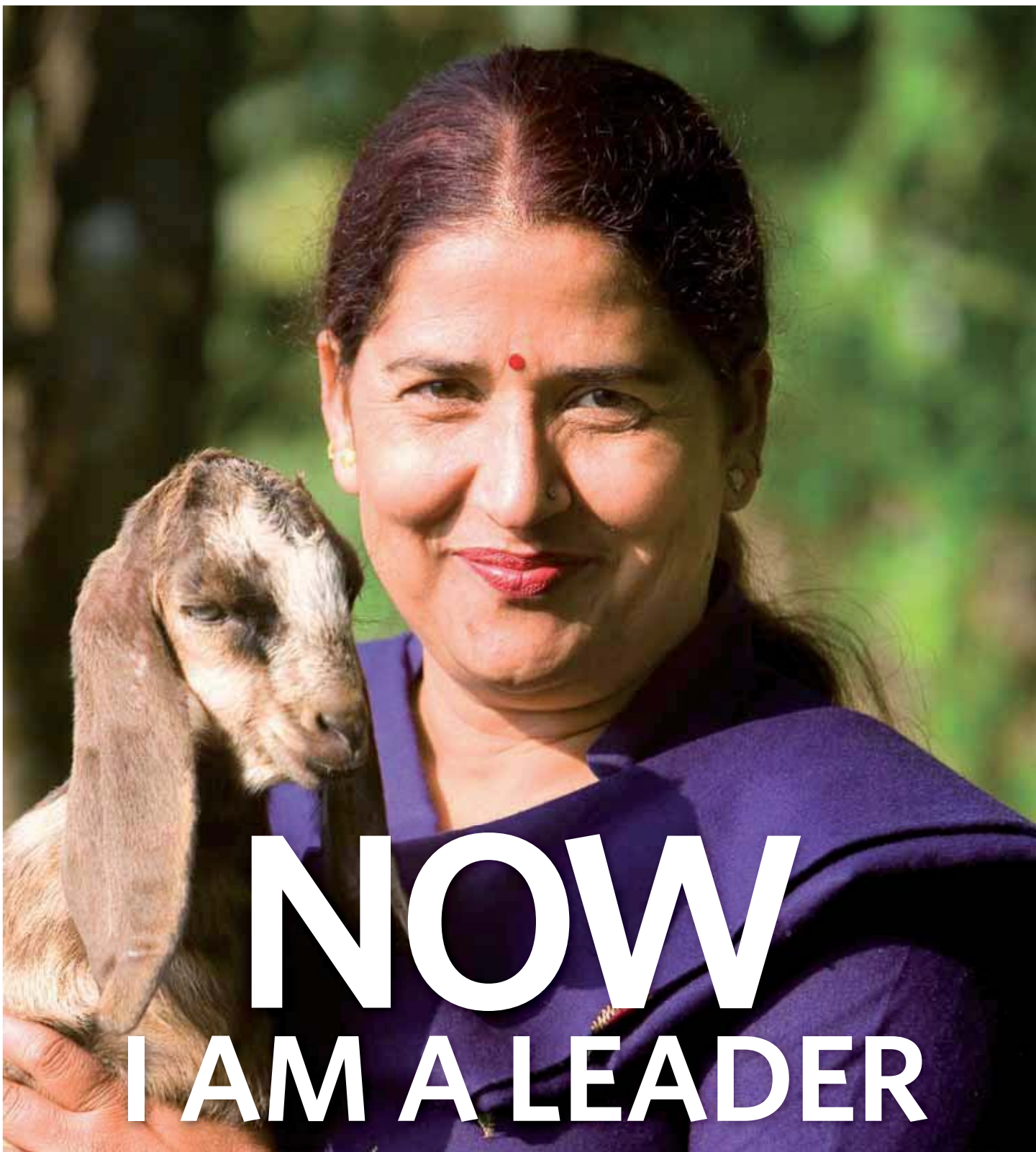
Recipients of ADB results programs will get to choose between the new approach and existing lending instruments. In its policy paper, ADB says results-based lending will “complement ADB's existing lending modalities, help ADB better meet the needs of its developing member countries, support good governance, increase accountability and incentives for development results, and contribute to the aid effectiveness agenda.”

The broad aim of the ADB's approach is to deliver better results through greater accountability, and ensuring those results are sustained and expanded over time.

Whether the pilot succeeds in achieving that goal will be assessed through an internal review of the program's performance at the pilot's 3-year halfway mark, and around the time of its completion in 2019.

In fact, the next few years could be crucial for the results agenda's future prospects everywhere, as the global development community assesses and refines its impact at program level in differing contexts. The road to optimal results will likely be a long one, but at least a start has been made. ■

Additional reporting by John Otis



NOW I AM A LEADER

Women own less than once percent of Earth's land but produce eighty percent of the developing world's food. Sita Poudel is one of those women. With help from Heifer International, Sita formed self-help groups in Nepal that are allowing women a voice, a way to take charge of their own lives and secure their rightful places in leadership. Their children are able to go to school, they are no longer hungry and Sita has a voice. Since 1944, Heifer International has provided livestock, tools and training to more than 15.5 million families. We will keep working until we END hunger and poverty around the globe. Join us.

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DEVELOPMENT AGENDA

2-5 MAY



**Delhi 2013:
46th Annual
Meeting of the Asian
Development Bank,
India Export Mart
Limited, Greater
Noida, Delhi, India**

- 3:** World Press Freedom Day
- 5:** International Day of the Midwife

8-10 MAY



**Regional Conference on Integrating
Domestic Industries with Global
Production Networks and Supply
Chains (ADBI), Singapore**

- 13:** UN Human Rights Council, 23rd Session, Geneva, Switzerland
- 13-14:** Cities for Children Conference, Stuttgart, Germany
- 15:** International Day of Families
- 19-23:** United Nations International Strategy for Disaster Reduction Global Platform for Disaster Reduction, Fourth Session, Geneva, Switzerland
- 20-21:** EE Global 2013 - Energy Efficiency Global Forum, Walter E. Washington Convention Center Washington, DC, US
- 20-28:** WHO World Health Assembly, Geneva, Switzerland
- 21-22:** Aid and International Development Forum, Washington DC, US
- 21:** World Day for Cultural Diversity for Dialogue and Development
- 29:** Day of UN Peacekeepers
- 29-31:** 5th Delft Symposium on Water Sector Capacity Development, Delft, The Netherlands

JUNE

- 4:** Day of Innocent Children Victims of Aggression
- 5-7:** World Economic Forum on East Asia, Nay Pyi Taw, Myanmar
- 6-9:** Asian Conference on Sustainability, Energy and Environment, Osaka, Japan
- 8:** World Oceans Day
- 12:** World Day Against Child Labor
- 16:** Day of the African Child.
- 17-18:** G8 Summit, Enniskillen, Northern Ireland
- 20:** World Refugee Day
- 27:** 20th ASEAN Regional Forum, Bandar Seri Begawan, Brunei

25-28 JUNE



**8th Asia Clean Energy Forum 2013 -
ADB headquarters, Manila, Philippines**

- 26:** Day Against Drug Abuse and Illicit Trafficking

JULY

- 6:** International Day of Cooperatives
- 7-10:** ICPD (International Conference on Population and Development) - Review International Conference on Human Rights, The Hague, Netherlands
- 8-11:** Third APEC Business Advisory Council (ABAC) Meeting, Kyoto, Japan
- 10-12:** Third International SIDS (Small Island Developing States) Conference - Pacific Region Preparatory Meeting, Republic of Fiji

AUGUST



- 11:** World Population Day
- 18:** Nelson Mandela Day
- 23:** International Day for the Remembrance of the Slave Trade and its Abolition
- 29:** International Day against Nuclear Testing

SEPTEMBER

- 1-7:** WHO World Breastfeeding Week
- 1-6:** World Water Week, Stockholm, Sweden



- 5-6:** G20 Summit, St Petersburg, Russian Federation
- 8:** International Literacy Day
- 9:** International Day of the World's Indigenous People
- 9-27:** UN: Human Rights Council, 24th Session, Geneva, Switzerland
- 11-13:** World Economic Forum: The Annual Meeting of the New Champions, Dalian, PRC
- 12:** International Youth Day
- 16:** International Day for the Preservation of the Ozone Layer
- 17:** Global Launch of the MDG 2012/2013 report, *The Post-2015 Development Agenda in Asia and the Pacific: Regional Perspectives*, New York, US
- 19:** World Humanitarian Day
- 21:** International Day of Peace
- 20-22:** UNEP Clean Up the World Weekend
- 24:** 68th UN General Assembly, New York, US
- 29:** World Heart Day



PHOTOGRAPH: VEEJAY VILLAFRANCA

RECYCLED LIVES

It has been nearly 25 years since the last garbage truck unloaded at Smokey Mountain. But the huge, smouldering mound of trash near Manila's old city still provides a home and livelihood for 30,000 people, many of whom grew up scavenging through trash for plastics and metal to recycle.

The scavenging continues, though nowadays pickings are slimmer. The mountain itself has changed, lush vegetation now covering its crest. A small group of local residents live on top, growing corn and burning wood for charcoal to sell as cooking fuel.

Soot-covered children play with dirty water bottles and plastic bags, breathing in smoke from smouldering charcoal. Most residents live in apartment towers at the foot of the mountain. Most living spaces are cramped, and money is short with monthly rent

costing nearly \$25. Still, a sense of community is as palpable as the poverty.

The challenge now is to provide livelihoods. Sustainable Project Management, a Geneva-based nongovernment organization working at Smokey Mountain, is helping improve recycling through better collection and sorting at a new material recovery facility. Rainwater is used to clean the recycled material, boosting its value.

The organization is a partner in a cooperative employing 40 people—many of them former waste pickers—to turn trash into fashion accessories such as handbags for export overseas. Some of the coop's office employees are former waste pickers too. "I like it here," says Letty Reyes, who handles the coop's finances after returning to school as an adult. "It has changed my life."



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The Asia and Pacific economies are growing but so is the divide between the rich and the poor. ADB is committed to turning the economic momentum toward **inclusive growth** by creating access to social services, education, and opportunities for all—young and old, female and male, urban and rural. Join the conversation at **ADB's 46th Annual Meeting, Delhi, India, 2-5 May 2013.**

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