

# Innovation in the Public Sector

By Olivier Serrat

## Why Innovate?

Innovation has a longer history than the tools, methods, and approaches we mechanically associate with it. (The first image that web browsers return is invariably a lightbulb.)<sup>1</sup> At the intersection of nature and culture, spurred by competition, innovation connotes mankind's reaction to incessant change.

From the dawn of human organization—after the retreat of continental glaciers opened fertile tracts, especially in the Fertile Crescent, from about 15,000 BC<sup>2</sup>—increasing size and complexity in many societies forced them evermore to capture energy by consuming raw materials, fuel, and food; accumulate data and information in support; and resort to war—itsself a mighty spring of innovation—when access to livelihood assets<sup>3</sup> was insecure. Energy drives productivity, wealth, and power, Ian Morris explains,<sup>4</sup> and innovation serves to satisfy these. The "why," if not the "how," of innovation is thus simple: it is the purpose, reason, or cause behind whatever adaptation, improvement, or invention is needed and successfully applied to beget from scarce resources valuable outcomes that meet explicit or latent needs. Innovation is something that is new, capable of being implemented, and has beneficial



Innovation is something that is new, capable of being implemented, and has a beneficial impact. It is not an event or activity; it is a concept, process, practice, and capability that defines successful organizations. Innovation in the public sector can help create value for society.

<sup>1</sup> Thomas Edison (1847–1931), a prolific American inventor and businessman, developed many devices that greatly influenced life around the world, including the electric lightbulb, the phonograph, and the motion picture camera. He applied principles of large-scale teamwork and mass production to the process of invention; because of that, he is credited with the creation at Menlo Park, New Jersey of the first industrial research laboratory.

<sup>2</sup> A strong correlation exists between the appearance of human settlements and the rate of innovation. Between 60,000–10,000 BC, circumstantial evidence suggests the appearance in turn of boats, bows and arrows, cloth, mining, pottery, ropes, and sewing needles. Agriculture, alcohol, animal husbandry, baskets, irrigation, and metalworking emerged from 10,000 BC. From 5,000–2,000 BC, innovation gathered speed: aqueducts, bread, candles, canals, cement, combs, currency, measuring devices, ploughs, papyrus, paving, protowriting, reservoirs, sailing, sewers, silk, soap, and wheels are examples.

<sup>3</sup> The *Knowledge Solutions* on the sustainable livelihoods approach identify the resources that people make trade-offs and choices about as human, social, natural, physical, and financial capital. Defined in terms of the ability of a social unit to cope with shocks and stresses over time, the approach is used to understand, measure, and analyze poverty and its alleviation. However, there is no reason why it might not be applied to any socioeconomic strata. See ADB. 2008. *The Sustainable Livelihoods Approach*. Manila. Available: [www.adb.org/publications/sustainable-livelihoods-approach](http://www.adb.org/publications/sustainable-livelihoods-approach)

<sup>4</sup> Ian Morris. 2010. *Why the West Rules—for Now: The Patterns of History, and What They Reveal About the Future*. Farrar, Straus, and Giroux. He also defines sloth, greed, and fear as the motors of history. From this, it ensues that "Change is caused by lazy, greedy, frightened people looking for easier, more profitable, and safer ways to do things. And they rarely know what they're doing."

*[T]he evolution of the human brain not only overshot the needs of prehistoric man, it is also the only example of evolution providing a species with an organ which it does not know how to use; a luxury organ, which will take its owner thousands of years to learn to put to proper use—if he ever does.*

—Arthur Koestler

impact.<sup>5</sup> Insights from biology, geography, and sociology confirm little distinguishes what impelled our Neolithic ancestors from what drives modern man.<sup>6</sup>

Still, the environment that most individuals and organizations confront today is not what it was at the recent turn of the century; it is even radically dissimilar from what it was, say, 25, 50, or 100 years ago—market conditions were consistent; assumptions would remain valid for years; decisions would not have to be revisited for some time. This is no longer true: innovations sparked

by globalization and, especially, information and communication technologies have provoked bewildering change and fuelled globalization and technology to compound intricacy. Goods, ideas, information, money, people, and services flow with growing ease. Massive global competition and cooperation have been enabled; markets have shifted dramatically; and the values, aspirations, motivations, attitudes, and fears of customers and employees everywhere have been altered. In a shrinking world, since the rate of change is exponential, we cannot (yet) live on love alone, and we do not know what the future will bring, one and all must innovate to prepare for and, preferably, fashion change.<sup>7</sup> (Lest we forget, one and all must also, in equal measure and without trade-off, execute in the present. In successful organizations that last, the social architecture of individual behavior, structure, and culture is primed and leveraged for both exploitation and exploration.)<sup>8</sup>

*The intuitive mind is a sacred gift and the rational mind is a faithful servant. We have created a society that honors the servant and has forgotten the gift.*

—Albert Einstein

## On Yin and Yang

Innovating is interactive, social, and therefore takes time (and effort). Needless to say, some individuals and some forms of organization are more adept at probing possibilities and reaping benefits from the fourfold knowledge-brokering process of idea generation, idea selection, idea implementation (conversion), and idea diffusion—each stage drawing from different values, resources (people, in particular), and processes. Companies

<sup>5</sup> Innovation can have loose definitions. This simple one, crafted from sundry others, is on purpose both helpful and taxing. It is helpful because it encompasses a wide range of activities; it is taxing for the same reason. At the conceptual level, consideration of at least five questions conditions deeper understanding of what is a complex notion. What is success? (Time is a crucial factor: innovations that are initially successful may eventually fail—and vice versa.) What does application mean? (An innovation may be put into operations in one part of an organization or it may be disseminated outside among a large group of users.) What about typology overlap? (Innovation occurs in products, services, processes, and methods of delivery; however, what is a product to a person may be a service, process, or method to another.) Are all innovations equal within and across organizations? (An improvement deemed incremental by some may be thought radical by others.) What of the sources of ideas? (Patently, innovations combine existing and new thinking; very little originates *ab ovo*. It may well be that nearly every problem has been solved by somebody, somewhen, somewhere.)

<sup>6</sup> The *Knowledge Solutions* on business model innovation recount the early years of innovation thinking with emphasis on the two main theories, viz., evolutionary economics and dynamic capabilities frameworks for business strategy. See ADB. 2012. *Business Model Innovation*. Manila. Available: [www.adb.org/publications/business-model-innovation](http://www.adb.org/publications/business-model-innovation)

<sup>7</sup> In the pre-industrial age that closed in the early 1800s, many organizations could survive if they just provided quality products, with token upgrades to maintain competitiveness. (This method still applies where the lifecycle of market introduction, growth, maturity, and saturation and decline is long; Coca Cola and Pepsi are examples of products that have existed for decades.) But competition now means that most organizations need more than “good products;” they require management innovation that creates value. Higher expectations from clients, audiences, and partners—from better information and wider choice—also drive what innovations markets must shape. (Into the bargain, the 21st century has more than its fair share of pressing needs; the *Knowledge Solutions* on sparking social innovations point up the worldwide societal challenges we face.) See ADB. 2010. *Sparking Social Innovations*. Manila. Available: [www.adb.org/publications/sparking-social-innovations](http://www.adb.org/publications/sparking-social-innovations)

<sup>8</sup> The question rattles: why should it be hard to simultaneously perform well and adapt? The answer is that the demands of exploitation set roadblocks to exploration. According to Eric Beinhocker, they are (i) hierarchies—mental models become more rigid, more locked in, and more averse to novelty as, paradoxically, experience is gained; (ii) organizational complexity—highly interdependent systems become so complicated that they go into gridlock and change becomes impossible; and (iii) mismatch of resources—an organization’s resources determine what its plans might be, but their execution breeds path dependence and constrains opportunities in a vicious circle. The only way past the roadblocks is to trim hierarchy, sanction autonomy, and encourage diversity. See Eric Beinhocker. 2006. *The Adaptable Organization*. *McKinsey Quarterly*. No. 2.

*Every act of creation is first of all an act of destruction.*

—Picasso

live or die by innovation.<sup>9</sup> To respond to relentless market pressures and stay competitive, drawing from many people with complementary resources, skills, and talents, the finest among them take (and find ways to reduce) risks:<sup>10</sup> they invest in organizational, technical, and social novelties and

reward handsomely for new or significantly improved products, services, processes, and methods of delivery (or other elements of their business model(s), such as policy and strategy or system interaction). To this intent, along a continuum of internal to external orientation, they cultivate, replicate, partner, network, or procure from open source to generate incremental, radical, or transformative (systemic) improvements that sustain or alter performance trajectories. (From this perspective, innovation is perhaps best explained as change that fashions new dimensions of performance.) In 1982, *In Search of Excellence*<sup>11</sup> praised 43 companies for their long-term profitability and continuing innovation. The fact that many did not hold up only confirms that innovation equates with survival and fitness—this much is generally accepted.

But it is conventional wisdom also that public sector agencies, by contrast, merely hope for incremental improvement. Policy makers have been slow to appreciate that the public sector should build public services around requirements, rather than making them fit existing arrangements with outdated one-size-fits-all approaches. “Business as usual—if possible better” might be the motto of these near-monopolies: it is rare for innovation to be institutionalized in budgets, roles, and processes.<sup>12</sup> Innovation is typically seen as an optional, technological<sup>13</sup> extra or an added burden.

Often made from the same mold,<sup>14</sup> civil servants are also short of the discovery skills—viz., observing, questioning, associating, networking, and experimenting—that distinguish innovators from run-of-the-mill administrators. (First and foremost, innovators are good at associating: they make connections between seemingly unrelated problems and solutions, and synthesize ideas.) Immobilized by red tape in functional silos, risk-averse, when innovation happens it is despite rather than because of the way the public sector does

<sup>9</sup> To note belatedly, this is not to say that there are no unintended, undesirable outcomes from innovation. (The subject does not attract attention mainly due to general pro-innovation bias.) Of course, there will be: marrying Adam Smith and Joseph Schumpeter, why should disruptions not occur if invisible hands promote ends that were not part of original intentions? One man’s loss is another man’s gain: direct and indirect outcomes will be wanted by some; others will suffer. See Karl-Erik Sveiby, Pernilla Gripenberg, Beata Segercrantz, Andreas Eriksson, and Alexander Aminoff. 2009. *Unintended and Undesirable Consequences of Innovation*. Paper presented at the International Society for Professional Innovation Management Conference on The Future of Innovation in Vienna, 21–24 June. (Mark, for instance, the Luddite Movement of 1811–1813. The Luddites were English handloom weavers who protested—often by destroying mechanized looms—the social havoc wreaked by the Industrial Revolution. New textile factories were replacing them with less-skilled, low-wage labor, leaving them without work and hurting their way of life.)

<sup>10</sup> Innovators must, for instance, consider the following: (i) demand risk—how big is the market for the new product, service, process, and method of delivery and will competitors emerge?; (ii) business risk—is monetary and physical capital available to meet the costs of innovation and what effect will the innovation have on organizational branding and corporate reputation?; (iii) technological risk—will the new technology work, will it be safe, does it complement other technologies, and will competing technologies emerge?; (iv) organizational risk—is the right structural capital, including organizational culture and structure, available and is the necessary human capital, including the necessary mental abilities and engagement, at hand?; (v) network risk—is the right relational capital, including supply chains, in place and are there gaps?; and (vi) contextual risk—how volatile is the external environment, e.g., the institutional, policy, and regulatory framework, and financial markets?

<sup>11</sup> See Tom Peters and Robert Waterman. 1982. *In Search of Excellence: Lessons from America’s Best Run Companies*. Warner Books.

<sup>12</sup> The media, advocacy groups, and opposition parties, to name a few, have an interest in exposing public sector failures. (Hence, ornate if not tentacular routines have developed around performance management; inspection; anticorruption; and audit—nearly all current models of which are stacked against innovation.) Criticism forms a powerful impediment: when mishap is so much more visible and accountable, innovation is no one’s job.

<sup>13</sup> The truth is that innovation belongs in all sectors and is only occasionally driven by technology.

<sup>14</sup> Psychometric tests of personnel in the public sector suggest the best part are Sensing-Judgers, notably ISTJs—Introversion, Sensing, Thinking, Judgment—according to the Myers-Briggs Type Indicator. (ISTJs normally account for about 10%–14% of the population.) ISTJs are earnest, logical, organized, and trusty traditionalists who keep their lives and environments well regulated. They may be compared to worker bees that strive toward their goal. Typically reserved and serious, they earn success from thoroughness and reliability: they are detail-oriented and ponder options to decide on the factual and the present, although they generally keep to the conventional. They can shut out distractions and take a logical, practical approach to endeavors. They are able to take tough decisions that other psychological types may shirk. They take joy in upholding institutions and they value loyalty and tradition. Potential shortcomings include not seeing the forest for the trees, looking at ideas and people for the purpose of finding fault, using judgment to dismiss opinions and perspectives without really understanding them (yet rarely judging themselves), not encouraging others to experiment or innovate, having generally self-centered tendencies, and becoming slaves to rules and regulations. The unknown, the future, and the unplanned stress them. Some quip that if anyone actually invented the chain of command it was probably an ISTJ, aka “I Seldom Tell Jokes.” The Keirsey Temperament Sorter dubs them “inspectors.” ENTP—Extroversion, Intuition, Thinking, Perception—the Myers-Briggs Type Indicator associated with innovation, displays with one exception, viz., T (Thinking)–F (Feeling), near-opposite attributes. (ENTPs normally account for 2%–5% of the population. They are rarities in the public sector.) The Keirsey Temperament Sorter refers to ENTPs as “inventors.”

things.<sup>15</sup> (Nobody ever talks of entrepreneurship as survival there; what risks are identified are financial, project, and compliance risks, not the risk of missing an opportunity. Put differently, how many senior civil servants—one might ask—reached the top as a reward for their innovations?)<sup>16</sup>

Except when people’s lives are at stake, agreeing also that the public realm should remain legible and coherent and that the public sector should be a stabilizing force, precautionary mindsets are not an excuse. And to push

service-improving and bottom-up creativity, an organization intent on innovating for the future should surely—and undoubtedly can—staff itself with a reasonable variety of personality types; where there is a will, there is a way. So, what real extenuating circumstances might the public sector plead? In the private sector, the prime reason to innovate is to increase—or at least maintain—profits to keep going in a more and more competitive global economy. In contrast, the public sector operates under an exigent set of concerns, demands, interests, pressures, and restrictions that make it a far more open—and therefore complex when not chaotic—system.<sup>17</sup> Not surprisingly, therefore, what innovation does come to pass is politically directed innovation instigated by crisis, organizational turnarounds initiated by agency heads, and a modicum of bottom-up innovation driven by champions.<sup>18</sup> The time horizons are typically short.<sup>19</sup> Irrespective, all endeavors must at some point secure political or bureaucratic support.

And yet, in the public sector too, business as usual has become business at risk: lest they forget, public sector organizations must wait on stakeholders and shareholders—perceptions, never mind evidence, that they do not create public value will dissuade the hand that feeds them and lead to destitution. More with less will not get them there either. One should never let a crisis go to waste: the ongoing global recession of 2008–2012 is putting extreme pressure on public spending as fiscal deficits soar. It is high time to lead innovation in

*There is simply no way to keep up with public expectations, to get better value for money, or to solve the deep and wicked problems if you just whip the existing system harder.*

—Geoff Mulgan

public sector agencies to contain costs and maximize the relevance, effectiveness, efficiency, effectiveness, impact, and sustainability of “personalized” outcomes that address old and new public needs with more coordinated approaches. (Delivery, of course, is a function of policy, practice, and provision; fresh thinking is required there, too.) To finish,

*I cannot help fearing that men may reach a point where they look on every new theory as a danger, every innovation as a toilsome trouble, every social advance as a first step toward revolution, and that they may absolutely refuse to move at all.*

—Alexis de Tocqueville

<sup>15</sup> The *Knowledge Solutions* on moral courage in organizations critique the principal features of bureaucracy, reminding us that its raison d’être is—merely if unequivocally—to execute the actions of an organization toward its purpose and mission with the greatest possible efficiency and at the least cost of resources. (Indeed, they are structured to perform their core tasks with consistency and stability and resist change or disruption of these tasks.) Specifying, formalizing, and systematizing make bureaucracies equally poor at changing from within and at learning from outside. Therefore, innovation will be self-defeated when grounded in the classic bureaucratic model of hierarchy, division of labor, and departmentalization. See ADB. 2011. *Moral Courage in Organizations*. Manila. Available: [www.adb.org/publications/moral-courage-organizations](http://www.adb.org/publications/moral-courage-organizations)

<sup>16</sup> Innovation is directly proportional to the behavior of senior Management: it must set the context; guide the process; clearly communicate reasons; shield creative teams; appreciate distinctiveness in people and their thinking; and welcome change. The more ambitious the proposed change, the higher the priority senior Management must ascribe to it. (Because corporate governance by way of strategy review, risk management, performance evaluation, auditing, and nomination of chief executive officers can bear on innovation, some contend that boards of directors also have a role to play.)

<sup>17</sup> Three key differences come to mind: (i) decision point—in the private sector the primary decision unit within which innovation is weighed up is the profit center, whereas in the public sector it is more likely to be a loosely specified outcome; (ii) value—in the private sector the wellspring of innovation is ordinarily shareholder value, while in the public sector the intention is to gratify public interest; and (iii) legislation—in the public sector companies are “merely” obliged to abide by the law, but in the public sector legal constraints on organizations impose wider requirements.

<sup>18</sup> Predictably, the resulting approaches often have to do with organizational structure, partnerships, horizontal integration, devolution and decentralization, new business processes, and some customer-centered service improvement. (In contrast, *pace* Steve Jobs and Akio Morita, innovation in the private sector turns on heavy upfront investment in realizing the needs of customers and understanding the experiences of suppliers.)

<sup>19</sup> The organizations of the future, not the eternal present, manage to focus at once on four different horizons of decision making: (i) the short-term horizon of urgent problems and crises, including the pressures of media and politics—the time span of innovative tactics is days, weeks, or months; (ii) the medium-term horizon of existing programs, where implementation is normally the principal concern—the time span of incremental innovation is 1–3 years; (iii) the longer-term horizon in which new policies and strategies become ever more critical to survival and success—the time span of radical innovation is 3–20 years; and (iv) the generational (or legacy) horizon of issues that require the public sector to look far into the future—the time span of very radical innovation is 50 years. See Geoff Mulgan. 2007. *Ready or Not? Taking Innovation Seriously in the Public Sector*. NESTA.

one should stress an obvious but often overlooked truth: innovation in the public sector is vital, given that it influences the welfare of myriads and is often entrusted with socially important mandates.

### Taking Mammon’s Goad to the Body Politic

Organizational performance, including good public service, cannot withstand indifference to the need to innovate: in both the private and public sectors, organizations that consistently generate and execute new ideas tend to be more effective at achieving their goals, whatever these may be, and to be leaders in their fields. Innovation is a concept, process, practice, and capability, better, a culture that should be germane to any kind of organization, or at least systematically pursued where it is inhibited by business as usual, aka operations, or inbred short-termism.

*Innovation is the specific instrument of entrepreneurship. It is the act that endows resources with a new capacity to create wealth.*  
—Peter Drucker

How then might the public sector innovate to be competent in the present and be ready for the future? How might innovation be driven more by public needs than by policy or process? Specifically, how might public sector organizations

develop explicit systems to eliminate, reduce, raise, and create for value—thereby giving customers less of what they do not want (or use) and more of what they need—that visibly pervade, quicken streams of ideas, and are seen as vital? Christian Bason sees four action areas: (i) develop innovation consciousness, (ii) build innovation capacity, (iii) leverage the power of co-creation, and (iv) strengthen leadership so there is the courage to innovate at all levels.<sup>20</sup> So far, so good. But how exactly might they create cultures of innovation that wed individual, group, and organizational creativity so that they stop counting on people succeeding despite the odds and instead shift the odds? Fusing individualistic, structuralist, and—especially—interactive process perspectives, there are three inseparable and mutually reinforcing ways to take innovation in the public sector seriously.

- **Values.** Barring the odd maverick, personnel will not innovate without license: an innovative culture needs pro-innovation governance and support from the top to make sure ideas take carriage. Policies and behaviors matter: tout innovation in every message. Foster a culture of trust in which innovation is seen as natural, even ordinary, and personnel communicate freely in support: new ideas and new ways of doing things are welcome. Align incentives and rewards, fix disincentives, and recognize innovation in every part of the organization, for example, through awards, pay determination, and storytelling. Grow what works to make innovative culture self-reinforcing.

- **Resources.** A resource is a source or supply from which an organization gains profit. Put innovation at the heart of strategy and equip it. Identify priority fields for innovation. Refresh human resource policies to bring out the best from innovators. Build physical surroundings that join people in concert. Exploit differences: engage spirited personnel who think creatively and see new patterns, drawing on new technologies to pull needs and possibilities together. Set up dedicated teams and networks responsible for promoting innovation. Push and pull to create pressure for innovation, also using information and communication technologies. Manage stock and flows of knowledge to enrich the raw material of creative thought.

*The greatest mistake you can make in life is to be continually fearing you will make one.*  
—Elbert Hubbard

Finance innovation to ensure that lack of resources is not a serious constraint. Divert a small proportion of the budget for generating, selecting, implementing, and diffusing innovation, including training. Fund for outcomes achieved, not rules adhered to. Take stock with appreciative inquiry, inspections, and audits of what is working, promising, or emerging.

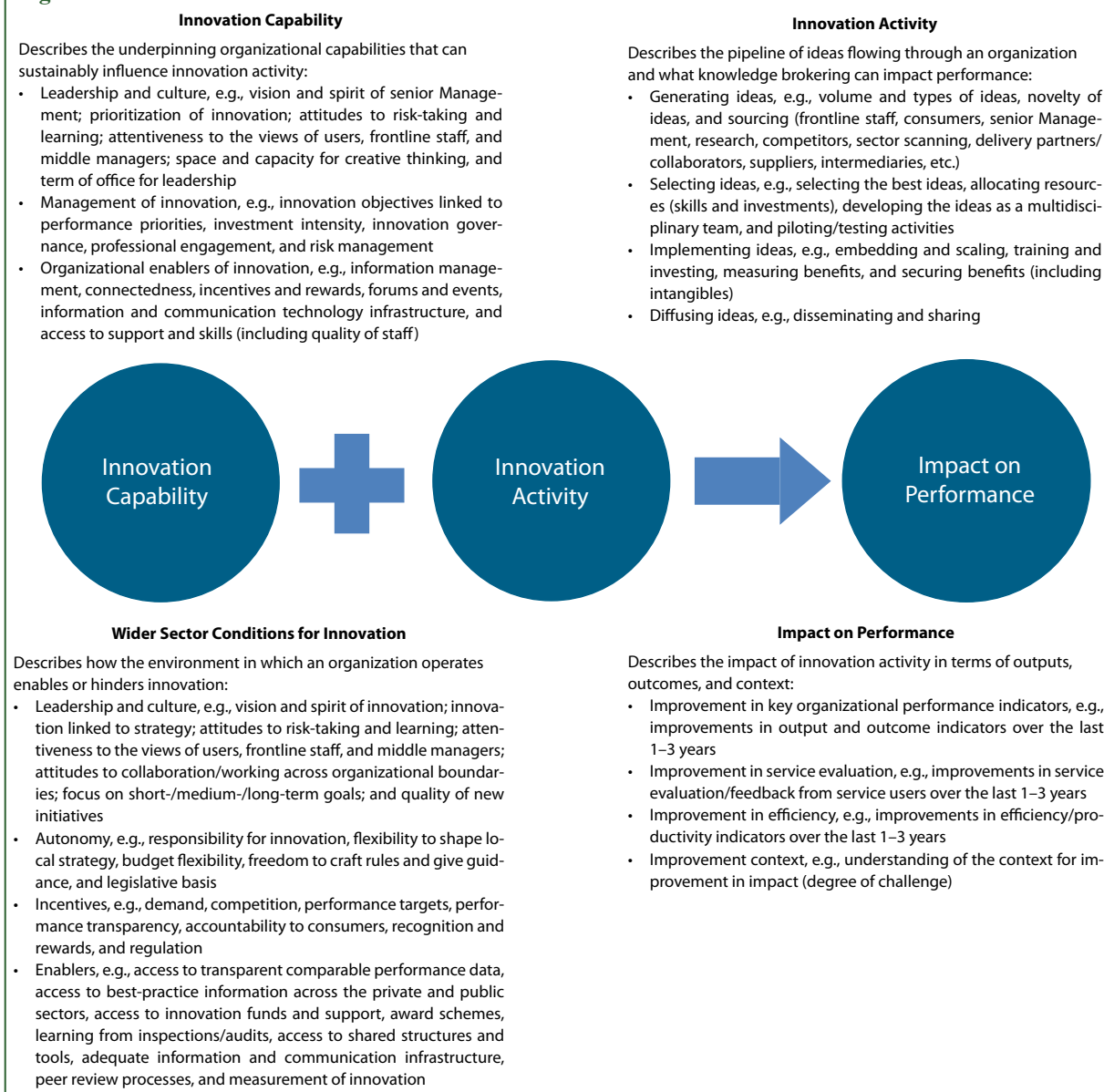
- **Processes.** A business process is a collection of related, structured activities or tasks that serve a particular goal: it begins with a mission objective and ends with the achievement of that objective.<sup>21</sup> Endow the organization with management, operational, and supporting processes that improve knowledge brokering of

<sup>20</sup> Christian Bason. 2010. *Leading Public Sector Innovation: Co-creating for a Better Society*. Policy Press.

<sup>21</sup> An efficient and effective business process has the following characteristics: (i) definability—it has clearly defined boundaries, inputs, and outputs; (ii) order—it consists of activities that are ordered according to their position in time and space; (iii) customer—its outcome has a recipient; (iv) value-adding—it adds value to the customer, either upstream or downstream, through the transformation it impels; (v) embeddedness—it is implanted in an organizational structure; a process cannot exist in itself; and (vi) cross-functionality—it regularly can, but not necessarily must, span several functions.

ideas from generation to selection, implementation, and diffusion. Make innovation a job prerequisite and define jobs around it. Give time to think. Open up the space for ideas and draw these from people at all levels. Develop a menu of tools, methods, and approaches for trying things out, including incubators, laboratories, pathfinders, pilots, and skunk works. Tinker and try with prototypes and pilots. Evaluate experiments. Emphasize user-pull over technology-push to co-opt consumers in innovation. Collaborate with outsiders to help solve problems. Seek also information from the outside, for example, by benchmarking, making site visits, and participating in professional networks. Relax evidence-based procedures. Shape inducements for adoption, scaling, and diffusion by teams and networks. Be smart about risks and how they can be managed. The figures below present a framework as well as tools, methods, and approaches to generate, select, implement, and diffuse innovative ideas in the public sector. Together, they suggest how its staff might question, care, connect, and commit to find something original in the ordinary.

**Figure 1: Framework for Innovation in the Public Sector**



Source: Adapted from Alastair Hughes, Kyla Moore, and Nimesh Kataria. 2011. *Innovation in the Public Sector: A Pilot Survey for Measuring Innovation across the Public Sector*. NESTA.

**Figure 2: Tools, Methods, and Approaches to Generate, Select, Implement, and Diffuse Innovative Ideas in the Public Sector**



Source: Developed from William Eggers and Shalabh Kumar Singh. 2009. *The Public Innovator's Playbook: Nurturing Bold Ideas in Government*. Deloitte Research and the Ash Institute for Democratic Governance and Innovation at Harvard Kennedy School of Government.

### **Further Reading**

ADB. 2009. *Harnessing Creativity and Innovation in the Workplace*. Manila. Available: [www.adb.org/publications/harnessing-creativity-and-innovation-workplace](http://www.adb.org/publications/harnessing-creativity-and-innovation-workplace)

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### **For further information**

Contact Olivier Serrat, Principal Knowledge Sharing and Services Specialist, Regional and Sustainable Development Department, Asian Development Bank ([oserrat@adb.org](mailto:oserrat@adb.org)).



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ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to two thirds of the world's poor: 1.8 billion people who live on less than \$2 a day, with 903 million struggling on less than \$1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

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Asian Development Bank  
6 ADB Avenue, Mandaluyong City  
1550 Metro Manila, Philippines  
Tel +63 2 632 4444  
Fax +63 2 636 2444  
knowledge@adb.org  
www.adb.org/knowledgesolutions