

I. ADB'S Approach to Poverty Reduction: An Overview

Since the Asian Development Bank (ADB) adopted its Poverty Reduction Strategy (PRS) in 1999, several developments have occurred in the Asia and Pacific region. Given the experience with implementing the 1999 PRS and progress on poverty and the Millennium Development Goals (MDGs) in the region, some important changes have been introduced through the enhanced PRS. This chapter provides the backdrop of status of poverty in the region and explains the rationale for ADB's overall institutional response in terms of the enhanced PRS and several recent initiatives.

A. Introduction: Purpose and Structure of the Handbook

Poverty has many dimensions. The 2004 Enhanced Poverty Reduction Strategy defines impoverishment as a multi-dimensional construct:

“Poverty is characterized by a lack of access to essential goods, services, assets, and opportunities to which every human being is entitled. Everyone should be free from hunger, should be able to live in peace, and should have access to basic education and primary health care services. Poor households need to sustain themselves by their labor and be reasonably rewarded and should have a degree of protection from external shocks. In addition, individuals and societies are also poor—and tend to remain so—if they are not empowered to participate in making the decisions that shape their lives (p. 1).”

Poverty reduction is ADB's overarching goal, and all of ADB's activities are to be designed to contribute to poverty reduction, either directly or indirectly. Through support to poverty reduction at the country and regional levels, ADB contributes to the greater global effort to foster achievement of the Millennium Development Goals (MDGs). At the Millennium Summit in September 2000, world leaders adopted the Millennium Declaration, committing their nations to a global partnership to reduce poverty, improve health, and promote peace, human rights, gender equality, and environmental sustainability. The World Summit of 2005 took stock of progress made in achieving the MDGs, and reaffirmed the international community's commitment to achieving the MDGs. In his remarks to the 2005 World Summit¹, ADB President Kuroda underscored the importance of accelerating efforts to poverty reduction in the Asia and Pacific region:

¹ Statement of President Haruhiko Kuroda, Asian Development Bank, High-level Plenary Meeting of the General Assembly, United Nations (UN) Headquarters, New York, 14–16 September 2005.

“No other developing region of the world has been more successful in creating economic growth and alleviating absolute poverty. But achieving all the MDGs by 2015 still requires massive investments in services and infrastructure to meet basic human needs. The scale of deprivation in Asia and the Pacific is daunting. The region has more people with inadequate nutrition, more living in slum conditions, and more without access to water and sanitation than any other developing region of the world (p.1).”

The purpose of this handbook is to assist professionals involved in the programming and preparation of assistance activities financed by the ADB, in their efforts to address effectively the many elements of poverty reduction in the region. The handbook provides country economists, poverty reduction specialists, social development specialists, project team leaders, staff, consultants, and national executing and implementing agencies in partner governments with analytical approaches to assist in understanding and addressing the complex realities underlying poverty. It highlights opportunities for ADB to: (i) support a country-led process of poverty reduction, (ii) align assistance with the national poverty reduction strategy, (iii) assist developing member countries (DMCs) achieve the MDGs and other national poverty reduction results, (iv) make use of national systems, (v) harmonize ADB support with that of other development partners, and (vi) become jointly accountable for poverty reduction results.

The intent of this handbook is to present techniques that can be used for incorporating poverty considerations in country analysis and programming, and project preparation and management. It includes tools and describes approaches for incorporating poverty analysis into program planning, project preparation and performance assessment. Given that all PRS pillars, all ADB sectors and themes, and all ADB reforms and operational activities aim to reduce poverty, this handbook will be periodically updated to reflect lessons from ongoing experience of operational activities, theoretical advances, and new ADB processes and procedures.

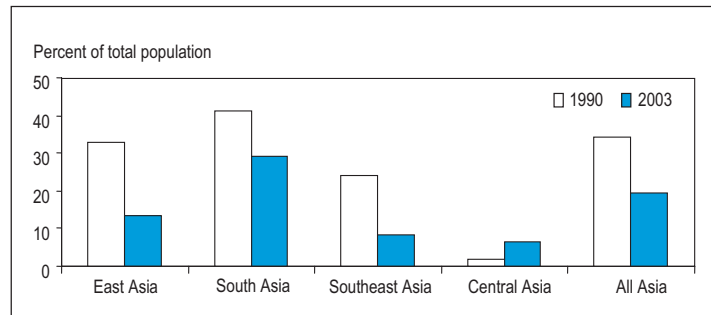
Chapter I of this handbook provides an overview of the poverty situation in the region, and ADB’s institutional response. The subsequent sections of the handbook are structured to reflect ADB’s operational cycle and business practices, providing guidance on contributing to the national poverty reduction strategy (chapter 2), preparing a country poverty analysis (chapter 3), incorporating poverty considerations in the country strategy and program (chapter 4), poverty assessment in project preparation (chapter 5), and performance monitoring and assessment (chapter 6). For ease of reference, separate chapters are provided for each of the main stages in the country assistance programming cycle. Relevant appendixes that provide essential supporting documentation are presented in the back of the handbook.

B. The Poverty Context

1. Long-term Trends and Strategic Lessons

Asia and the Pacific made impressive progress in reducing income poverty in the 1990s, in spite of the 1997 financial crisis that depressed growth and increased poverty incidence. Using a \$1-a-day standard, poverty incidence declined significantly from 1990 to 2003. In 1990, about 34% of the population in the region lived below the poverty line. By 2003, this proportion had come down to 19% (Figure 1.1). The number of poor persons declined by about 300

**Figure 1.1: Poverty Incidence Based on International Poverty Line
(\$1/day)**



Source: ADB Key Indicators. 2005.

million, from an estimated 920 million in 1990 to 620 million by the end of 2003, with much of the progress accounted for by the People's Republic of China (PRC) and, to a lesser extent, by India, Indonesia, Pakistan, and Viet Nam. While remarkable progress in reducing income poverty has been registered in the region, a large number have incomes that are still only just above the poverty line such that an adverse shock could easily push them under. Although the region is still home to two thirds of the world's poor, Asia and the Pacific's poverty reduction performance in the 1990s compares favorably with that of other developing regions where the number of poor people increased.

The non-income dimensions of poverty have registered much less progress in Asia and the Pacific, calling into question the likelihood of achieving the non-income MDGs. Low and low-middle income countries in the region have generally tended to underinvest in the social sectors. Public spending in health and education in the low income countries is in the range of 4–6% of gross domestic product (GDP) compared to levels twice that found in Asia's low-middle and middle income countries. In the low income countries, poor households tend to bear a large proportion of the costs of health and education services, because public expenditures, inadequate to begin with, often fail to reach the poor. In turn, countries with low social indicators tend to record low economic growth, which further constrains government revenues. With competing pressures on public expenditures, social sector investments tend to receive a low priority—what investments are made tend not to be managed well.² This vicious cycle needs to be broken if poverty is to be reduced.

While development strategies and policies should be cast in terms of country-specific starting points, potentials, and constraints, there are valuable lessons to learn from the region's experience in poverty reduction. Studies undertaken by ADB on poverty reduction strategies in the last few years have identified several key lessons from Asia and the Pacific experiences for fostering development in a manner that is inclusive and effective in reducing poverty.³

² For more details on the targeting and delivery of social services, see World Bank. 2004. *World Development Report 2004: Making Services Work for Poor People*. Washington DC.

³ See Seiji Naya. 2002. *The Asian Development Experience: Overcoming Crises and Adjusting to Change*, Asian Development Bank. Manila. M.G. Quibria. 2002. *Growth and Poverty: Lessons from the East Asian Miracle Revisited*. ADB Research Institute Paper 33. Tokyo: ADB Institute. Shiladitya Chatterjee. 2005. *Poverty Reduction Strategies—Lessons from Asia-Pacific on Inclusive Development*. Asian Development Review. 2005.

First, high rates of economic growth have had the most significant impact on reducing poverty. East Asia's growth was sufficiently high enough in the 1970–2000 period to overcome growing inequalities and still cause substantial reduction in poverty. South Asia, on the other hand, did not experience significant growth in inequality, but its growth was insufficient to cause much reduction in poverty. The proximate cause of high economic growth in the East Asian countries was a state that guided market-led development. Confidence in the credibility of the state's commitment to a congenial market-oriented investment climate, underpinned by favorable policies and institutions, resulted in sustained high rates of investment. Another critical element of the policy package was openness to trade and technology, which gave these economies the opportunity to exploit international market trading opportunities and access new technologies and raw materials, which helped sustain competitiveness and foster modernization. Adherence to prudent macroeconomic policies, labor market flexibility, and market-supporting political and legal institutions that favored profit-making over rent-seeking were complemented by economic openness. Crafting policies that inspired efficient private sector-led growth and development has been central to East Asia's success in poverty reduction.

Second, to make growth inclusive, the Asia and Pacific experience appears to suggest that the sectoral composition of growth does matter. Primary sector growth has invariably played a significant role in poverty reduction in this region, given that for much of the 20th century, poverty in Asia was largely a rural phenomenon. Higher agricultural output and rural incomes resulted from the green revolution. Between 1970 and 1995, cereal production doubled, with almost all of the increase stemming from higher productivity on practically the same amount of agricultural land. In those parts of rural Asia where the new technology was adopted, incomes and employment increased, and the perennial food shortage problem was largely solved.⁴ DMCs that grew earliest and fastest, such as PRC, Malaysia, Thailand, and Indonesia, and have reduced rural poverty the most, witnessed rapid progress in agriculture.⁵ However, regions or countries at different stages of development would have different sectoral structures. Thus, there are findings that where poverty has been mainly a rural phenomenon, such as in South Asia or in earlier stages of East Asia's development, agricultural growth needs to be increased, agriculture being the main avocation of the rural sector. On the other hand, where countries are at a stage where the primary sector has ceased to be the dominant sector and the Kuznets U-turn has already occurred, secondary sector growth may be more important both to absorb rapidly the rural poor as well as reduce poverty in those employed in the secondary sector⁶.

Third, labor absorbing growth is a powerful poverty reducing process. Labor is generally the main asset of the poor, and the more labor-intensive growth is, the better the poor are able to connect to the growth process. The experience of East Asia is quite different from South Asia in this respect. East Asia had experienced substantial growth of formal employment compared to its population growth than did South Asia. There were considerably more rigidities in labor absorption capacity in South Asia compared to East Asia, which could be due to a variety of reasons, including the inflexibility of labor markets. The focus should not be on flexibility of labor

⁴ Asian Development Bank. 2000. *Rural Asia: Beyond the Green Revolution: A Study of Rural Asia Overview*. Manila: ADB.

⁵ See Oshima, Harry T. 1993. *Strategic Processes in Monsoon Asia's Economic Development*, Baltimore: Johns Hopkins University Press. Shiladitya Chatterjee, *Growth, Structural Change and Optimal Poverty Interventions*. ADB Occasional Paper Number 13. Manila. John Yee, Steve Tabor, and Joel Nave. 2004. *Rural Development Policies in Asia and the Pacific: Lessons Learned and Future Course of Action*. FAO Regional Ministerial Roundtable Meeting on Spearheading Subregional Cooperation for Eradication of Poverty and Food Insecurity in Asia and the Pacific.

⁶ Agriculture is the primary sector and industry is defined as the secondary sector. The Kuznet's U-turn refers to the income level at which income inequality declines with an increase in average incomes.

legislation alone, since such legislation is usually confined to the organized sector above a certain firm size. It also involves (i) promoting policies that allow a faster structural transformation from primary to secondary and tertiary production, and reduces dualistic rigidities in the economy; (ii) policies that allow an unfettered growth of the secondary and tertiary sectors; (iii) reducing costs of migration; (iv) allowing the convenient location of industries close to sources of labor to reduce costs of providing urban services; and (v) other policies aimed at enabling the private sector to operate competitively, and foster rapid structural transformation.

Fourth, apart from policies that impact indirectly on poverty through growth, the Asia and Pacific region also followed a number of direct, targeted poverty reduction interventions with varied success. East Asian countries, as contrasted to South Asian countries, had all undertaken land reforms and therefore—as many would argue—had better initial conditions to spur inclusive development. However, undertaking land reforms is increasingly difficult owing to the political opposition it generates and to the decline in the importance of agriculture in Asian economies. Land reform would be important only where agriculture still is an important activity. In such countries, given usual opposition to radical measures, there is still scope to undertake less radical second-best measures that have substantial impact such as tenancy registration, improvement in land records, promotion of land rights of women, and provision of social assistance to those unable to participate in the market economy. Similarly, providing the poor with access to finance is also crucial. Asia and Pacific has yet to utilize microfinance to its potential and the region has had few success stories (except for examples such as Grameen Bank in Bangladesh, BRI Unit Desa in Indonesia, and BAAC in Malaysia). For microfinance to succeed in the Asia and Pacific region, the overall environment within which it has to operate must be improved, including deregulating interest rates, formalizing the property rights (i.e. to housing, land and moveable assets) of the poor, developing easier collateral for small account holders, and developing improved rural transport and communications infrastructure to better service numerous small accounts. Support for inclusive development should also ensure that focused attention be paid to the region's disadvantaged populations, whether deprived due to lack of incomes or by gender, caste, belonging to indigenous groups, and minority status or through living in geographically remote areas.

Fifth, investments in human capital development have been a major driving force in growth and inclusive development in the Asia and Pacific region. Human capital not only enables growth; if targeted toward the poor and disadvantaged, it can also act directly as a powerful measure of inclusive development and poverty reduction. In education, the Asia Pacific region has made good progress, although South Asia has yet to catch up with East Asia's achievements in primary and secondary education. The future strategy for Asia and Pacific will be to further expand enrolments in primary and secondary education, reduce illiteracy further, and focus more attention on improving the quality of education. In health, the story is similar in terms of attainments and the differences in achievements within the Asia and Pacific's subregions. In gender equality also, this subregional variation is evident. The key human development indicators are also included as part of the non-income MDGs, reflecting the importance the international community attaches to them. Whatever this global partnership may bring, Asia and Pacific must continue providing high priority in allocating resources to human development, including harnessing private resources, building capacity, and reforming delivery institutions to make services more efficient, better targeted, and more responsive to market requirements.

Sixth, infrastructure, particularly rural infrastructure, has been in the Asia and Pacific context an important instrument for directly reducing poverty, in both its income and non-income

dimensions.⁷ If well targeted to poorer regions, infrastructure removes critical binding constraints that prevent the poor from increasing their incomes and gaining access to basic services. Infrastructure can also be an important instrument of regional cooperation and can bring poor, remote, and landlocked regions into the economic mainstream by enabling connectivity across frontiers to increase trade and incomes of the poor.

Seventh, in Asia, the poor often occupy environmentally fragile lands, such as river embankments, steep and unstable slopes, and areas prone to drought or floods. Living on and using such land for subsistence, the poor contribute to environmental degradation and make such areas even more fragile and disaster prone. Stabilizing and improving degraded environments inhabited by the poor and introducing sustainable ecosystems management and production systems are key to poverty reduction. Likewise, disaster risk reduction and disaster preparedness for the poor inhabiting fragile and natural disaster-prone regions also will be critical to poverty reduction and sustainable development.

SEVEN KEY LESSONS FROM THE ASIA AND PACIFIC REGION

1. High rates of economic growth have had a significant impact on poverty reduction.
2. The sectoral composition of growth matters.
3. Labor-intensive growth is the most pro-poor.
4. Direct poverty reduction interventions have had varying degrees of success.
5. Improved human capital is a driving force behind growth, inclusive development, and poverty reduction.
6. Infrastructure can have a direct poverty reduction effect.
7. Environmental sustainability must be enhanced to have a lasting effect on poverty reduction.

C. Recent Poverty Status

Recent ADB estimates⁸ place the number of people subsisting on less than \$1 a day⁹ at 621.4 million in 2003 (with a head-count ratio of 19.3%), down from 921.5 million (34.3%) in 1990. Much of this progress is due, however, to advances in just a few countries. The number of poor people is projected to fall further to 346.6 million (9.3%) by 2015 and could even be as low as 107.6 million (2.9%) on more favorable assumptions of growth and inequality. Thus, the region is projected to meet the target of halving the proportion of poor over the 1990 level. However, unless growth and inequality trends are favorable, of the 20 DMCs studied, as many as 5 may not meet the target based on projections made in 2005. Moreover, more than half of the population had incomes less than \$2 per day in 2003, suggesting that vulnerability to income poverty remains widespread in the region.

⁷ See ADB. 2005. *Assessing the Impact of Transport and Energy Infrastructure on Poverty Reduction*.

⁸ ADB. 2005. *Key Indicators 2005: Labor Markets in Asia: Promoting Full, Productive and Decent Employment*. See the ADB's annual Key Indicator Series, the UNDP/ESCAP Annual MDG Reports, and the World Bank's Global Economic Prospects reports for a review of income and non-income poverty estimates. These draw on both national poverty lines and international comparators to assess progress in poverty reduction.

⁹ Despite the many shortcomings of the \$1-a-day measure, it is the only one that can be used to make intercountry comparisons and measure overall extent of poverty in the region.

ADB, the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), and United Nations Development Programme (UNDP) have collaborated to review progress in achieving the MDGs in the Asia and Pacific region.¹⁰ The results reported on the \$1 a-day measure are similar. Using national poverty lines for the 13 countries that have assessed poverty during the period 1990 to 2001 period, the proportion of people living in poverty also fell, though less dramatically—from 21.3% to 19.4%.¹¹

A strong relationship exists between growth and income poverty reduction, which has been the subject of considerable work undertaken by ADB and the World Bank.¹² A recent ADB study¹³ found, for example, that a 1% increase in per capita income growth led to a 2% decline in income poverty in a sample of Asian developing countries. Interestingly, the study found that for a larger sample, including 51 developing countries around the world, the relationship is less strong, with a 1% per capita income growth responsible for just 1.5% decline in poverty incidence. An important reason for this is lower initial inequality in income distribution in the Asia and Pacific region. Table 1.1 shows data on the decomposition of poverty reduction which decomposes changes in poverty reduction into income growth and income distribution changes (along with a residual) in selected countries in Asia between the late 1980s to early 2000s. It shows that while growth has undoubtedly been the primary driving force in poverty reduction, rising inequality is starting to reduce the impact of growth on poverty reduction. This is seen particularly in Bangladesh (1991–1995), China-rural (1996–2001), India-urban (1983–1987), and Philippines (1994–1997).

Non-income poverty remains a major concern in the region. Data from the 2005 joint study by ADB, UNESCAP, and UNDP reveals that achieving non-income MDGs continues to be a major concern in South Asia, the Central Asian republics, the transition economies in Southeast Asia and a few other large countries in the subregion (such as Indonesia and the Philippines), and several Pacific islands. MDG progress is also a concern at the subnational level, particularly in the poorer parts of rural Asia and Pacific. Figure 1.2 shows the 27 ADB DMCs that are “off-track” or unlikely to meet 25% or more of the MDG indicators given current trends.¹⁴ In terms of sectors “at risk” for the DMCs, Figure 1.3 shows that of the DMCs for which data are available, more than one third of the countries were off-track for the main health indicators, water indicators, rural sanitation, and two critical environment indicators. From a quarter to a third of the countries were off-track for the net enrollment ratio in primary education and pupils reaching grade 5, urban sanitation, gender equality in tertiary education, and HIV prevalence.

This analysis on MDGs confirms the findings of the PRS review: the region considerably risks not attaining the non-income MDGs (Figures 1.2 and 1.3). Data deficiencies on the MDGs are, however, a serious issue and requires accepting these results with caution.¹⁵ Much greater efforts are needed in the problem countries, particularly in health, water supply, and sanitation. Other main areas are primary education and environment. The lack of gender equality in tertiary education and empowerment reflects the general lack of economic and social participation of

¹⁰ UNESCAP, UNDP, and ADB. 2005. *A Future Within Reach: Reshaping Institutions in a Region of Disparities to Meet the Millennium Development Goals in Asia and the Pacific*. United Nations. Thailand.

¹¹ Given an increase in the size of the population, this implies that there was a reduction in the incidence of poverty *without* a corresponding reduction in the magnitude of poverty in those countries.

¹² See for instance D. Dollar and Kray, *A: Growth is Good for the Poor*: World Bank (2000), which sparked off a spate of studies on the linkage between growth and income distribution.

¹³ ADB: *Key Indicators 2004*: Special Chapter on “Poverty In Asia: Measurement, Estimates and Prospects.”

¹⁴ The following developing member countries (DMCs), however, were found to be off-track in less than 25% of the indicators studied: Sri Lanka; Kyrgyz Republic; Fiji Islands; Bhutan; Thailand; Solomon Islands; Palau; Republic of Korea; Malaysia; Tonga; Hong Kong, China; Tuvalu; Singapore; Nauru.

¹⁵ Studies of 41 ADB members, covering 25 indicators, showed that on average only two thirds of the data was available. MDG data needs to be improved greatly.

women.¹⁶ Growth in these countries must be promoted and, jointly with development partners, resources prioritized, capacities developed, and policy and institutional changes made to attain the MDGs.

Table 1.1: Decomposition of \$1-per-day Poverty in Selected Countries

Economy	Reference Years	Change in Poverty (percentage points per annum)	Poverty Distributions		
			Growth	Distribution	Residual
East Asia					
PRC–Rural	1990–1993	-1.77	-2.21	0.52	-0.07
	1993–1996	-4.75	-6.32	1.22	0.35
	1996–2001	0.34	-0.42	0.76	0.0
Southeast Asia					
Indonesia	1996–1999	0.36	2.65	-2.05	-0.24
	1999–2002	-2.58	-3.50	1.21	-0.04
Philippines	1994–1997	-1.53	-2.77	1.28	-0.04
	1997–2000	0.57	0.56	0.00	0.01
Thailand	1992–1996	-1.48	-0.92	-0.67	0.11
	1996–2000	0.45	0.56	-0.03	-0.08
Viet Nam	1993–1998	-4.21	-4.23	0.14	-0.12
	1998–2002	-1.32	-1.75	0.68	-0.25
South Asia					
Bangladesh	1991–1995	-1.72	-3.36	1.94	-0.29
	1995–2000	1.41	1.59	-0.17	-0.01
India–Rural	1983–1987	-2.13	-2.49	0.42	-0.06
	1987–1993	-0.47	-0.18	-0.28	-0.01
	1993–1999	-1.19	-1.18	-0.04	0.03
India–Urban	1983–1987	-0.24	-0.96	0.73	-0.02
	1987–1993	-0.93	-0.73	-0.21	0.01
	1993–1999	-0.61	-0.98	0.35	0.03
Pakistan	1987–1993	-2.60	-2.84	0.22	0.02
	1993–1999	-1.38	-0.97	-0.35	-0.06
Sri Lanka	1985–1990	-1.10	-0.68	-0.53	0.11
	1990–1995	0.49	-0.09	0.62	-0.04

PRC = People's Republic of China

Source: Key Indicators 2004 (ADB 2004).

¹⁶ Although not assessed specifically in the study, women's participation in Parliament is dismal in the DMCs. In the Asia and Pacific region, women generally do not hold more than 30% of parliamentary seats (Manasan, Rosario. 2005. *Assessment of Prospects in Attaining MDGs in Asia and Pacific Countries*. Background Paper for *A Future Within Reach*. Manila: ADB.).

Figure 1.2: Countries with 25% and Above of Non-Income MDGs Off-track
(%)

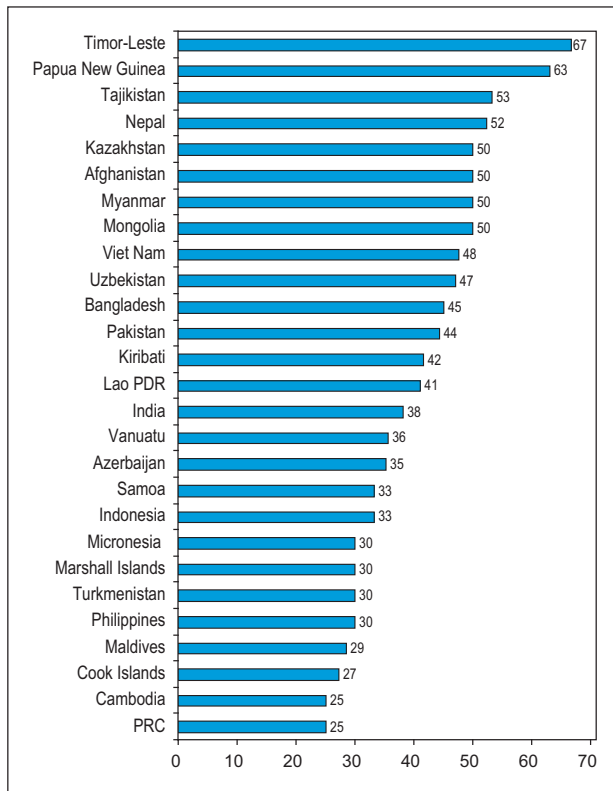
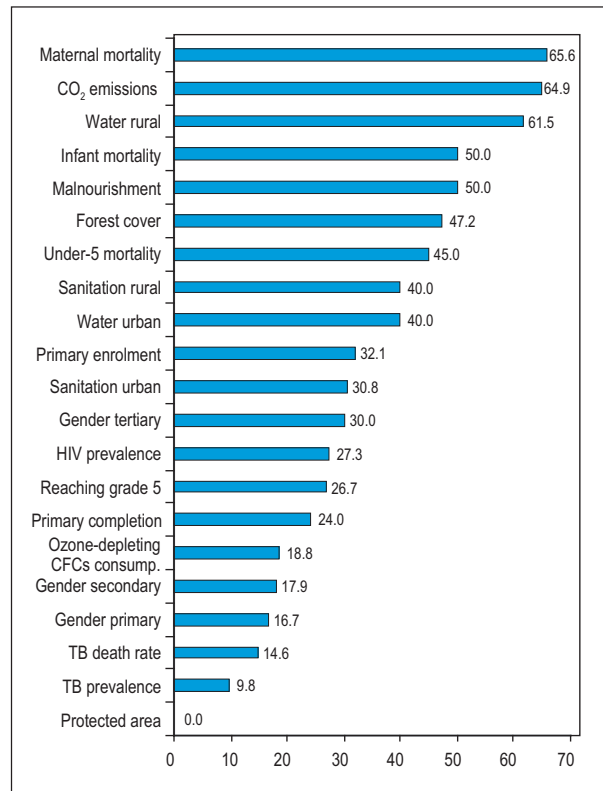


Figure 1.3: Percentage of ADB DMCs Considered Off-track in Meeting Non-income MDGs
(%)



ADB = Asian Development Bank, CFC = chlorofluorocarbon, CO₂ = carbon dioxide, DMC = developing member country, HIV = human immunodeficiency virus, Lao PDR = Lao People's Democratic Republic, MDG = Millennium Development Goal, PRC = People's Republic of China, TB = tuberculosis.

D. ADB's Institutional Response

ADB has long been committed to fighting poverty in all its dimensions. In 1999, ADB formally declared poverty reduction as its overarching goal. The resultant PRS¹⁷ characterizes poverty as an unacceptable human condition that can be eliminated through public policy and action. The PRS, approved in November 1999, followed a framework comprising three pillars—pro-poor sustainable economic growth, inclusive social development, and good governance (Figure 1.4). Subsequently, ADB took several initiatives, including major revisions in important policies, new operational business processes, and reorganization of its operational structure, to effectively implement the PRS.

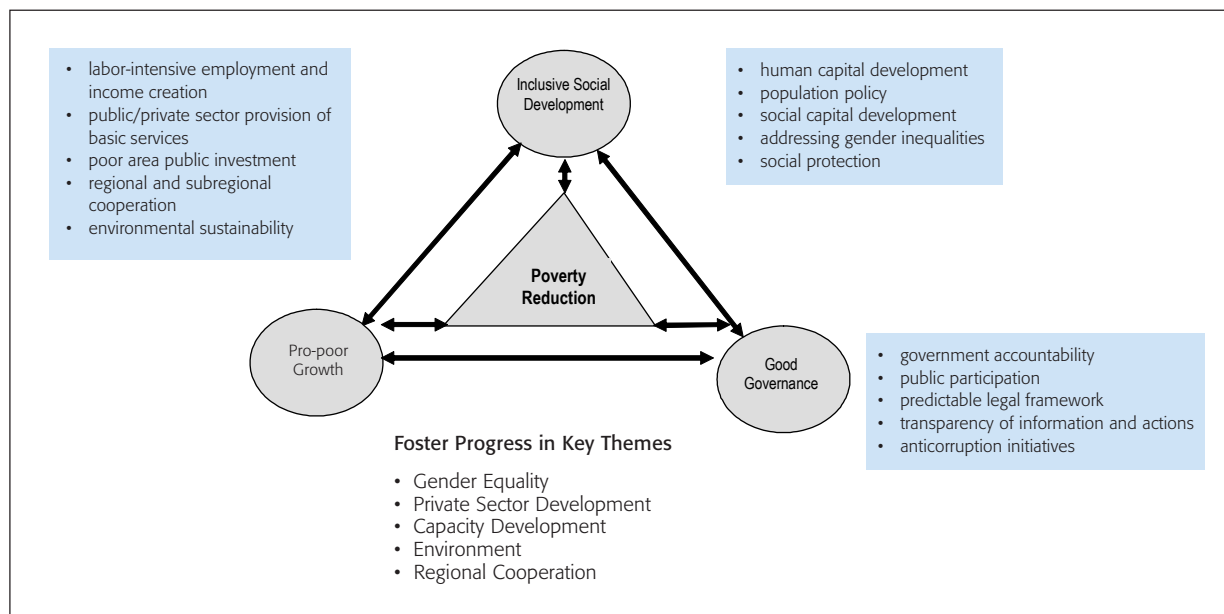
In January 2002, ADB reorganized its operations to better align its structure, organization, and processes with its overarching goal of poverty reduction. This combined projects with country operations and introduced new business processes to enhance country focus, and thus improve ADB's capacity to integrate the lessons learned from country-level operations into the respective country assistance planning and project development activities. ADB programming operations are

¹⁷ ADB. 1999. *Fighting Poverty in Asia and the Pacific: The Poverty Reduction Strategy of the Asian Development Bank*. November. Manila.

being gradually decentralized to resident missions, which have been considerably strengthened for this purpose, bringing decision making closer to the ground realities, including voices of the poor.

Concurrently, more specialist staff with poverty and social science expertise were recruited and deployed to bolster the bank's internal capacity to address poverty reduction. In ADB headquarters, a new department—the Regional and Sustainable Development Department (RSDD)—was established to help align ADB policies with the PRS, to review quality in order to enhance the effectiveness of ADB interventions in reducing poverty, and to foster knowledge management to fuel the upscaling process by guiding and assisting institutional learning. Sectoral and thematic committees comprising communities of practice were created to encourage teamwork and lesson-sharing across sectors. More intensive research into poverty impact monitoring and evaluation has also been undertaken to promote feedback of ex post facto results to better inform country strategies and project design.

Figure 1.4: Key Components of the ADB Poverty Reduction Strategy



Since the PRS was launched in 1999, a new global architecture for development assistance has emerged. The global development community has adopted the MDGs as the benchmark for monitoring progress in global poverty alleviation. The new architecture places a stronger emphasis on development partnerships, harmonization, delivering results, and capacity development within DMCs in support of national poverty reduction strategies (NPRS). A review of the implementation of the 1999 Poverty Reduction Strategy was undertaken in 2003 and 2004.¹⁸ The findings indicated that the greater strategic focus on poverty reduction had a perceptible impact on ADB and its operations. ADB's operational priorities and strategies have been realigned in line with PRS priorities while partnerships with civil society and other development agencies strengthened. At the country level, poverty assessments have helped

¹⁸ ADB. 2004. *Review of Asian Development Bank's Poverty Reduction Strategy*. Manila.

inform the assistance programs, while country strategies and programs (CSP)—now referred to as country partnership strategies (CPS) generally become more sharply focused on poverty reduction. The review concluded that the strategic focus and orientation of the 1999 PRS continues to be relevant. It recommended that ADB's country support be more closely aligned with NPRSs, that more comprehensive approaches to poverty monitoring be adopted, and that the focus of ADB performance monitoring be shifted away from only projects to the delivery of poverty reduction results closely linked to the MDGs.

The 2004 review of the PRS introduced changes and improved its implementation. While confirming the relevance of the basic framework of the PRS, the review sharpened the country focus, requiring closer alignment of ADB's country operations with each country's PRS and fostering partnerships around the strategy. The review called for increased attention to results, greater emphasis on capacity development, and alignment of ADB's organizational capabilities with the PRS. The review introduced a results-based monitoring and evaluation (M&E) system to assess ADB's institutional performance, replacing reliance on monitoring of lending targets for projects classified as poverty interventions.¹⁹

The Enhanced PRS. An enhanced version of the PRS was issued in December 2004²⁰ to reflect the findings of the PRS review. The enhanced PRS (EPRS) emphasized the importance of a country focus in defining ADB's assistance response. ADB support was to be fully aligned to the NPRS, and the country partnership strategy is to serve as the consolidated instrument for supporting the NPRS to reduce poverty. It is through a combination of lending and nonlending assistance that ADB assists the Government implement its NPRS. Accordingly, projects and non-project assistance should be clearly linked to ADB's CPS. The enhanced PRS underscores the importance of close coordination with other development partners to ensure that the poverty reduction and MDG attainment goals in the NPRS are met. It also emphasizes the importance of tracking ADB's own progress in contributing to poverty reduction results, through an annual PRS implementation report and sector and thematic reports.

The EPRS introduced a number of important changes. It noted that ADB's comparative advantage generally lies in addressing poverty indirectly, through fostering higher rates of economic growth, social development, good governance, and deeper regional integration.²¹ In the future, ADB's contribution to poverty reduction was to be defined at the country level, in terms of the mix, nature, and partnering dimensions of assistance provided for each DMC. Poverty reduction was, therefore, to be assessed based on the contribution that ADB's country program made to a government-led, multi-stakeholder effort to reduce poverty. All ADB lending and nonlending assistance was, therefore, expected to play a coherent role in contributing to ADB's country assistance for poverty reduction. Consequently, although targeting remained an important instrument (and was extended to support geographically backward areas and the non-income MDGs), there were no quantitative targets for the share of projects that were to be targeted for poverty reduction. Such support was to be defined on a country-specific basis for each DMC. The EPRS also

¹⁹ The original PRS introduced a 40% lending target for projects classified as poverty interventions, which are those where the proportion of the poor within the targeted beneficiaries exceed the national poverty incidence and is no less than 20%.

²⁰ ADB. 2004. *Enhancing the Fight Against Poverty in Asia and the Pacific: The Poverty Reduction Strategy of the Asian Development Bank*. Manila.

²¹ Direct interventions include those that are targeted to poor households and poor regions. Indirect interventions are those that address the overall enabling environment for poverty reduction. What constitutes a direct and an indirect intervention would be country specific. Typically, however, indirect interventions include major infrastructure projects, sector development interventions, and support for national capacity development, governance improvement, policy and institutional reforms.

introduced a multi-tier M&E system to improve accountability and generate lessons that could be used to improve ADB's operations, and to help guide poverty reduction efforts in the region.

Following the review and together with preparation of the EPRS, ADB developed a follow-up action plan and formed an interdepartmental coordination group to ensure timely implementation of the recommendations. This was reinforced by the ambitious Reform Agenda in August 2004 to make ADB more effective in delivering its overarching goal of poverty reduction. The agenda consists of ADB-wide reform initiatives, including Management for Development Results (MfDR), the new human resource strategy, the knowledge management framework (KMF), and the innovation and efficiency initiative.²² The Medium-Term Strategy II (2006–2008) sharpened ADB's focus on poverty reduction and introduced new instruments and approaches to assist ADB become more effective in delivering services to the DMCs.

Management for Development Results. ADB formulated an MfDR framework and an action plan in 2004 in keeping with the recommendation in the PRS review for a more results-oriented approach. The MfDR action plan is a key reform that will enhance results orientation at all levels—institutional, country, sector, and project. Under the MfDR action plan, a series of management reforms are designed to improve results on the ground, by boosting ADB's openness, accountability, and responsiveness. MfDR entails results-based CPSs, the primary guide to development strategy in each DMC.²³

Human Resource Strategy. ADB's most valuable asset in the battle against poverty is the knowledge, experience, and commitment of its staff. The EPRS calls for a better skills mix among staff and a new system of staff incentives. A 2002 staff survey confirmed that staff engagement and morale had to be improved, and human resource management realigned with ADB's core institutional objectives. Following the survey and ADB's commitment to implementing the EPRS and MfDR initiative, a new human resource strategy, which articulates the need to support the major policy thrusts of ADB, was developed in 2004.²⁴ The strategy has been guided by ADB's long-term strategic framework and the EPRS, and is designed to support ADB's commitment to mainstreaming the MfDR framework, promoting knowledge management sharing, and supporting ADB's vision of a strengthened development institution.²⁵ The strategic thrust is to clearly define and demarcate responsibilities and accountability of all staff members whose performance will

²² For more on ADB's reform agenda, see <http://www.adb.org/ReformAgenda/default.asp>.

²³ Other key management reforms adopted under the MfDR initiative include: (i) establishing a results management unit, (ii) developing strategic and operational processes/procedures for managing development results, (iii) harmonizing results indicators with development partners, (iv) reviewing the performance-based allocation policy, (v) conducting pilots of results-based CPSs, (vi) implementing accountability mechanisms; (vii) fostering an independent OED, (viii) strengthening senior management team, (ix) implementing a new public communications policy, (x) reviewing the implementation of several thematic strategies, (xi) preparing a new human resources strategy, (xii) conducting an independent assessment of ADB's reorganization, (xiii) reviewing ADB-wide portfolio use, and (xiv) addressing the bunching of year-end operations. ADB has undertaken steps to implement the MfDR action plan: (i) participation in the second international roundtable on MfDR in February 2004, (ii) initiation of pilot results-oriented CPSs, (iii) training in and awareness raising on MfDR in ADB and the DMCs, (iv) regional workshops canvassing MfDR issues, and (v) engagement of ADB in the global MfDR partnership arising from the Marrakech Core Principles and Action Plan. ADB chairs the Multilateral Development Bank (MDB) Working Group on MfDR and co-chairs the Development Assistance Committee Joint Venture on MfDR—Organisation for Economic Co-operation and Development (OECD).

²⁴ Key actions include the following: (i) determine the skills needed to meet ADB's emerging needs; (ii) assess the skills available within ADB, reduce redundant skills, and provide a framework to acquire, develop, and retain the required skills; (iii) establish core and technical competencies for all jobs and ensure consistency of competencies across departments; (iv) improve the recruitment and selection system to define the role and accountability of the managers; and (v) develop suitable training and development programs. See ADB. 2004. *Human Resources Strategy*. Manila.

²⁵ ADB. 2001. *Moving the Poverty Reduction Agenda Forward in Asia and the Pacific; The Long-Term Strategic Framework of ADB (2001–2015)*. Manila.

be evaluated and rewarded through an effective performance evaluation system. Broad-based changes will be gradually introduced to improve staff mix and orientation toward more effective implementation of ADB's poverty reduction agenda.

Knowledge Management. The EPRS commits ADB to becoming a learning institution and a primary source of development knowledge in the region. ADB has adopted a knowledge management framework (KMF) to enhance knowledge sharing among clients and to become a better learning organization. Toward this end, following are being implemented in phases: (i) the KMF action plan, (ii) the second information systems and technology strategy (ISTS II), and (iii) the adoption of a new public communications policy (PCP). The KMF action plan is designed to (i) encourage staff to support knowledge management, (ii) improve management of knowledge services and products, (iii) update business processes and information technology solutions for knowledge management, (iv) improve the functions of communities of practice (committees and networks), and (v) expand knowledge sharing with external shareholders. The new ISTS is designed to provide collaborative tools to help create, cultivate, and disseminate knowledge across ADB. The new PCP will help ADB better engage its stakeholders and enhance their trust in ADB, and vice versa, thereby opening up new ways to increase the effectiveness of development programs.

The **innovation and efficiency initiative (IEI)** aims to improve the efficiency, quality, relevance, and responsiveness of ADB to borrowing member countries' needs and requests. IEI targets changes in all key parts of ADB's operational cycle, from the development of its business pipeline (CPS) to the processing and approval of its financial and nonfinancial transactions, and ultimately to their implementation. Major areas of activity include (i) procurement—consultancy, goods, and works; (ii) cost sharing and eligibility; (iii) safeguards; (iv) improvement of business processes; and (v) introduction of new financial products and enhancement of credit and financial risk management. ADB is also harmonizing various business procedures and practices with other development partners and aligning them with DMC initiatives to reduce transaction costs for DMCs and to improve development assistance effectiveness.

The **Medium-Term Strategy II, 2006–2008 (MTSII)** is designed to help operationalize ADB's EPRS and strengthen the poverty reduction impact of ADB's assistance programs. It focuses on five strategic priorities: (i) catalyzing investment, (ii) strengthening inclusiveness, (iii) promoting regional cooperation and integration, (iv) managing the environment, and (v) improving governance and preventing corruption. All these support the main pillars and themes of the PRS. The MTSII discusses the manner in which these priorities will be pursued in the next few years, and introduces key adjustments in ADB's operational model to make ADB a more responsive organization. Particular attention in MTSII is given to sharpening the focus of ADB support by prioritizing assistance in those sectors in which ADB has an evolved comparative advantage, such as road transport, energy, urban infrastructure, rural infrastructure, education, and the financial sector.

Under the strategic guidance of EPRS and MTSII, and based on past trends and current opportunities, there is every reason to believe that a substantial reduction in poverty conditions is certainly feasible. Asia and the Pacific is a tremendously diverse region that has learned how to use market forces—and especially globalization—to inspire high rates of growth and improved living standards. It is a region that has access to and makes effective use of a wide array of technologies. The skills base is improving everywhere and increased labor mobility in the region helps bring skills to where they are needed the most. Asia's leaders are committed to eradicate poverty, and with large inflows of both private and official capital, and foreign exchange reserves

of nearly \$2 trillion, there is certainly financing available for worthwhile initiatives. ADB's approach to assisting the DMCs reduce poverty is country-responsive, sharply focused, and builds on lessons of experience. While there are no uniform templates for reducing poverty, there is ample reason to believe that approaches that have proven successful in the region can be scaled-up and diffused throughout the Asia and Pacific region.