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REVIEW OF ADB'S POVERTY REDUCTION STRATEGY

Paper for Discussion*

**Asian Development Bank
February 2004**

* This paper is being circulated simultaneously to the Board as a working paper for Board guidance.

ABBREVIATIONS

| | | |
|------|---|--|
| ADB | – | Asian Development Bank |
| ADF | – | Asian Development Fund |
| ADTA | – | advisory technical assistance |
| CSP | – | country strategy and program |
| CSPU | – | country strategy and program update |
| DMC | – | developing member country |
| EBRD | – | European Bank for Reconstruction and Development |
| IDA | – | International Development Association |
| ILO | – | International Labour Organization |
| IMF | – | International Monetary Fund |
| LTSF | – | Long-Term Strategic Framework |
| MDGs | – | Millennium Development Goals |
| MFR | – | management for development results |
| NGO | – | nongovernment organization |
| NIE | – | newly industrializing economy |
| NPRS | – | national poverty reduction strategy |
| OCR | – | ordinary capital resources |
| ODA | – | official development assistance |
| OECD | – | Organisation for Economic Co-operation and Development |
| PA | – | poverty assessment |
| PI | – | poverty intervention |
| PPA | – | poverty partnership agreement |
| PRC | – | People's Republic of China |
| PRS | – | Poverty Reduction Strategy |
| PRSP | – | poverty reduction strategy paper |
| RM | – | resident mission |
| RSDD | – | Regional and Sustainable Development Department |
| SMEs | – | small- and medium-sized enterprises |
| TA | – | technical assistance |
| TI | – | targeted interventions |
| UNDP | – | United Nations Development Programme |
| WB | – | World Bank |
| WHO | – | World Health Organization |
| WTO | – | World Trade Organization |

NOTE

In this report, "\$" refers to US dollars.

CONTENTS

| | Page |
|--|-------------|
| EXECUTIVE SUMMARY | i |
| | |
| I. INTRODUCTION | 1 |
| A. Background | 1 |
| B. The Review: Approach and Methodology | 1 |
| | |
| II. POVERTY IN ASIA AND THE PACIFIC | 3 |
| A. Poverty in Asia and the Pacific | 3 |
| B. The Relevance of the Three Pillars | 6 |
| C. New Challenges and Opportunities: Implications for Poverty Reduction | 7 |
| D. Summary | 9 |
| | |
| III. PRS IMPLEMENTATION AND KEY ISSUES | 9 |
| A. Country-Level Operations | 9 |
| B. Poverty Reduction Framework: The Pillars and Crosscutting Priorities | 12 |
| C. Lending and Nonlending Programs | 14 |
| D. Policies and Strategies | 21 |
| E. ADB's Resources | 22 |
| F. Partnerships | 24 |
| G. Overall Assessment of Implementation | 26 |
| | |
| IV. ENHANCING THE POVERTY REDUCTION STRATEGY AND ITS IMPLEMENTATION | 28 |
| A. Strategic Framework and ADB Priorities | 28 |
| B. Project Typology | 29 |
| C. Prioritization of Interventions | 30 |
| D. Approach to Country Strategies | 32 |
| E. Monitoring and Evaluation | 32 |
| F. ADB's Capabilities to Deliver the Poverty Reduction Strategy | 35 |
| G. Risks and Assumptions | 36 |
| | |
| V. RECOMMENDATIONS | 36 |
| | |
| APPENDIXES | |
| 1. Synopsis of the Poverty Reduction Strategy | 38 |
| 2. Millennium Development Goals | 40 |
| 3. Assessment of Progress Towards Achieving the Millennium Development Goals | 41 |
| 4. Poverty Reduction: What Worked | 43 |
| 5. Criteria for Evaluating Poverty Assessments and Country Strategy and Programs | 47 |
| 6. Infrastructure and Poverty Reduction | 49 |
| 7. Lending Operations by Sector | 55 |
| 8. Review of Changes in Advisory Technical Assistance Designs | 56 |

| | | |
|-----|--|----|
| 9. | Suggested Indicators for Monitoring of the Poverty Reduction Strategy | 58 |
| 10. | Linking Project Monitoring to Country-Level Outcomes: An Illustrative Approach | 59 |

EXECUTIVE SUMMARY

Introduction

The Asian Development Bank (ADB) formally adopted poverty reduction as its overarching goal in 1999. The Poverty Reduction Strategy (PRS), approved in November 1999, provided a strategic framework comprising three pillars—pro-poor sustainable economic growth, social development, and good governance. It called for greater operational emphasis on four crosscutting priorities: good governance, private sector development, gender and development, and environmental sustainability. For effective implementation of the PRS, ADB took several initiatives, including major revisions in important policies, new operational business processes, and a reorganization of ADB's operational structure.

This review—a requirement of the PRS itself—comes after 4 years of implementation. It also coincides with considerable changes in the global and regional context, with increased economic and political uncertainty, but also with a strong recovery in Asia after the 1997 financial crisis. A new global architecture for development assistance has also emerged. The global development community adopted the Millennium Development Goals (MDGs) as the benchmark for monitoring progress in global poverty reduction. It places a stronger emphasis on development partnerships and capacity development within developing member countries (DMCs) in support of national poverty reduction strategies (NPRS).

Poverty in Asia and the Pacific

Asia and the Pacific have an impressive record in reducing income poverty. Poverty incidence declined from 32% in 1990 to 22% in 2000. The absolute number of poor also dropped by around 180 million, from 900 million in 1990 to 720 million by the end of the decade. The region's performance was driven largely by India and the People's Republic of China (PRC). The rest of the region (excluding India and PRC) did not witness a decline in the number of poor over the decade, which remained at about 172 million. The region as a whole has made much less progress in the non-income dimensions of poverty.

Asia and the Pacific face a number of challenges in attaining the MDGs. The region must reduce its vulnerabilities to a changing environment, characterized by security concerns, conflicts and natural calamities. Regional economic integration should strengthen resilience to external shocks. The region must maintain political stability by enhancing institutional capabilities and international collaboration.

The Asian experience suggests that the conceptual framework of the PRS remains valid, and that the three pillars are closely linked. Successful poverty reduction strategies require a policy framework that simultaneously strengthens the three pillars, although the relative importance of each pillar will vary across countries.

PRS Implementation and Key Issues

The PRS has had a perceptible impact on ADB and its operations. Awareness among ADB staff of poverty reduction as an operational concept has increased. ADB has reoriented its operational policies and strategies toward PRS priorities, and strengthened its partnerships with other development agencies. Country-level operations, as well as overall lending and

nonlending operations are being realigned with the PRS. ADB's organizational structure has been adapted and capabilities have been enhanced to support the PRS.

At the country level, implementation of new processes for planning operations saw mixed results. Most poverty assessments (PAs) reported trends in income poverty incidence, focused on education and health, and provided reasonable policy recommendations. However, their treatment of other non-income dimensions of poverty, as well as the quality of poverty analyses, need to be strengthened. Country strategies and programs (CSPs) generally became more sharply focused on poverty reduction around the pillars and crosscutting priorities. Some CSPs also had a specific geographical focus to achieve a greater poverty reduction impact. The overall quality of CSPs was variable, however, and in many cases, did not fully reflect the PAs' findings.

Implementation of the PRS led to a sharper poverty focus in ADB's policy dialogue with DMCs. This enabled ADB to actively contribute to the formulation and implementation of more pro-poor macro- and sector-level policies in individual countries. ADB also assisted in the preparation of NPRSs in many DMCs.

The composition of lending has changed. Lending for the growth and governance pillars significantly increased. However, support for the social development pillar remained stagnant. This is largely due to a sharp decline in Ordinary Capital Resources (OCR) borrowing for social development projects in recent years, although there was a significant increase in Asian Development Fund (ADF) operations supporting this pillar. ADB increased its lending to individual/household targeted projects, exceeding its 40% lending target for poverty intervention (PI) projects in both 2002 and 2003.

At the project level, project preparation processes became more participatory. Improved pro-poor analytical approaches, such as poverty mapping and distribution analyses, strengthened the pro-poor focus of projects and monitoring of impacts. The impact on project designs was also discernible. More projects sought to target project benefits to the poor, and decentralize services. The changes also included shifts towards the PRS' recommended priority sub-sectors and integration of crosscutting priorities. Poverty orientation in the design of program loans and advisory technical assistance (ADTAs) improved. New operational policies, policy reviews, and strategies approved in the last 4 years reflected the PRS framework.

Changes in project preparation and designs led to some unintended adverse outcomes. Monitoring of poverty is generally the responsibility of specific government agencies. However, many sector agencies executing ADB projects had neither the capacity nor financial resources to monitor poverty at the project level. The review also noted that, to increase project benefits to the poor, some projects added pro-poor components without sufficient technical justification. Greater emphasis on individual/household targeted projects increased the complexity of certain projects while reducing their efficiency.

ADB's partnerships with civil society and international development agencies improved, both at the strategic and operational levels. Participation of NGOs in project preparation, and policy reviews and preparation increased markedly. ADB collaborated actively with other development agencies in support of NPRS preparation and implementation. Development partners based in DMCs, in general, perceive ADB to be a better and more involved partner now than it was 4 years ago.

Some progress was made in introducing new instruments and modalities, including lending terms based on the London interbank offered rate (LIBOR). However, further innovation was hampered by shareholder preferences and institutional constraints. A tight funding position during the ADF VIII period (2001-2004) also limited ADB's capacity to implement the PRS. A perceptible gap between ADB's mandate and its human resources impeded the effective delivery of the PRS.

Moving the PRS Forward

The PRS framework, consisting of the three pillars of pro-poor sustainable economic growth, social development, and governance, will continue to serve as the basis for meeting the goal of poverty reduction. Achieving inclusive growth requires enhanced DMC capacity for strategy formulation, policy reforms, and implementation, organized around NPRSs. To advance ADB's capacity development interventions, the review proposes that capacity development be added to the PRS's current thematic priorities (environment, gender, private sector development, and regional cooperation).

Asia and the Pacific have made relatively slow progress in meeting non-income MDGs over the last decades. The review noted that DMC borrowing for social development declined over the last 4 years. ADB will intensify its policy dialogue with DMCs and development partners to identify what forms of additional assistance are required to ensure meeting non-income MDGs.

The PRS narrowly defines PIs as projects designed to disproportionately benefit the poor through household and individual targeting. Depending on country conditions, other types of targeting—by geographical or sector, for example—could also be effective tools for reducing poverty. The project classification system will be modified to capture the full range of targeted interventions. Such interventions will include individual/household targeting, geographical targeting, and sector targeting (linked to MDGs 1-7), and will be called targeted interventions (TI). Analysis of ADB's future program shows that TIs will continue to constitute majority of its lending operations.

The PRS specified an ADB-wide 40% lending target for PIs and recommended an operational focus on certain sectors and subsectors. Specifying an institutional lending level for PIs is inconsistent with the individual country focus: it prejudices individual country assessments of the binding constraints to poverty reduction. It also conveys the impression that targeted projects are superior to non-targeted interventions, which have an indirect, but potentially larger, impact on poverty reduction. The target stressed the importance of inputs rather than development results. Prescription of priority sectors and subsectors has similar problems: it tends to narrow the focus of the PRS to isolated interventions.

To provide sharper country focus in designing ADB operations in line with the new development architecture, the review proposes that the PRS not contain any ADB-wide lending target or prescription of specific sectors and subsectors. The relevance and poverty focus of ADB operations would be ensured through a better mechanism for quality assurance of CSPs and country assessments, as well as through better monitoring and evaluation of country-level operations.

Poverty partnership agreements (PPAs), introduced under ADB's PRS in 1999, were a bold and innovative approach to formalizing bilateral agreements on country-specific targets. To date, 24 PPAs have been concluded and provided an effective framework for guiding operations. However, the role of PPAs has receded with the advent of NPRSs and poverty reduction

strategy papers (PRSPs) since 2000. Accordingly, the review proposes that ADB not conclude PPAs in DMCs with their own NPRS. The goals and medium-term targets contained in the NPRSs would be reflected in CSPs, and progress reported through CSPUs.

The PRS did not provide a comprehensive monitoring framework for measuring ADB's achievements in supporting poverty reduction. To allow ADB to better manage PRS implementation, ADB will establish a comprehensive framework of monitoring, evaluating, and reporting of ADB's PRS-related efforts at the institutional, country, sector, and project levels. This framework will be integral to ADB's overall structure of Managing for Development Results.

As part of this framework, and to better manage the PRS at the country level, ADB will ensure that all CSPs are based on high-quality analytical work. All new CSPs will have a logical framework showing clear linkages between the constraints to poverty reduction identified in poverty assessments, the proposed program, desired outputs, and expected outcomes. These country-level outcomes will be monitored at the level of the pillars, thematic priorities, sectors, and TIs. CSPUs will update the progress on the targets identified in the CSP logical framework. ADB, together with its partners, will ensure that a system is established for regularly monitoring progress towards achievement of the MDGs and other goals of the NPRS.

ADB will strengthen its project performance management system to ensure that the contributions of individual projects to country-level outcomes identified in CSPs are clearly established.

The enhanced PRS is ambitious and demanding. Its successful implementation assumes that ADB is adequately equipped, both financially and organizationally. It also assumes that ADB will develop a wider range of financial modalities and instruments to better respond to the varying poverty-reduction needs of its DMCs, and that ADB will act to remove structural, procedural, and human resource constraints.

I. INTRODUCTION

A. Background

1. In early 1999, the Asian Development Bank (ADB) adopted poverty reduction as its overarching goal.¹ This was a much-needed reorientation, given that Asia and the Pacific are home to about two-thirds of the world's poor. The Asian financial crisis of 1997 that pushed several million Asians into poverty acted as the catalyst for this shift in emphasis. The Poverty Reduction Strategy (PRS), approved in November 1999, provided a strategic framework to pursue this new goal (Box 1 and Appendix 1).² A range of initiatives was then taken to implement the strategy more effectively. These included establishing the primacy of country-based and country-led approaches to poverty reduction; major revisions in important policies; new operational business processes, and a reorganization of ADB's operational structure.

2. Since the PRS was adopted, there have been considerable changes in the global and regional context, with increased economic and political uncertainty but also a strong economic recovery in Asia. Four years of experience in implementing the PRS have raised new issues that need resolution. A new global architecture for development assistance has also emerged. The global development community adopted the Millennium Development Goals (MDGs) as the benchmark for monitoring progress in global poverty reduction. It places a stronger emphasis on development partnerships and capacity development within developing member countries (DMCs) in support of national poverty reduction strategies (NPRS). This review—a requirement of the PRS itself—examines ADB's experience in implementing the PRS, identifies key issues, and makes recommendations on the way forward.

B. The Review: Approach and Methodology

3. The review of the PRS began in May 2003. The review process was undertaken by a task force of ADB staff,³ guided by a committee of directors general of ADB. The task force reported to ADB Management. To strengthen this internal process, a group of external advisors comprising eminent development practitioners and academics was consulted periodically.⁴

¹ This marked a fundamental shift from its prior strategic framework. Before 1999, poverty reduction was one of the ADB's five strategic development objectives. The other four were promoting economic growth, supporting human development (including population planning), improving the status of women, and soundly managing natural resources and the environment.

² ADB's vision of Asia and the Pacific without poverty was encapsulated in the Long-Term Strategic Framework for 2001–2015. ADB. 2001. *Moving the Poverty Reduction Agenda Forward in Asia and the Pacific: the Long-Term Strategic Framework of the ADB (2001–2015)*. Manila.

³ The task force consisted of Stephen Curry (head), Indu Bhushan, Siew Tuan Chew, Rajiv Kumar, Noriko Ogawa, and Narhari Rao. Shyam Bajpai and Xianbin Yao also supported the task force. An internal panel of the Asian Development Bank's (ADB) senior staff periodically provided technical guidance to the task force.

⁴ The external advisers were Montek Ahluwalia, Yujiro Hayami, Justin Lin, Robert Picciotto, and Steve Radelet.

4. The review followed an extensive process of data collection and analysis,⁵ and internal and external consultations. Focus group discussions and individual interviews were organized with different categories of staff.⁶ In-country assessments were undertaken in six DMCs,⁷ involving discussions with government officials; civil society, including nongovernment organizations (NGOs); academics; and development partners. This was complemented by a workshop in August 2003 attended by representatives of 33 borrowing DMCs. A progress report was posted on ADB's website to seek comments from the general public. The review also benefited from discussions with members of ADB's Board and Asian Development Fund (ADF) donors.

5. Chapter II of this report discusses the experience of Asia and the Pacific in reducing poverty. Since the PRS was prepared, considerable new data and research has become available. This is reviewed to ascertain the continued relevance of the PRS framework. Chapter III reviews the experience in implementing the PRS and highlights achievements, weaknesses, and challenges that have emerged in the last 4 years. Chapter IV draws lessons and suggests possible modifications in the PRS framework and its implementation modalities. The report concludes with recommendations to move the PRS forward.

Box 1. The Poverty Reduction Strategy: Overview

Definition of Poverty

The Poverty Reduction Strategy (PRS) took a broad view of poverty:

Poverty is a deprivation of essential assets and opportunities to which every human being is entitled. Everyone should have access to basic education and primary health services. Poor households have the right to sustain themselves by their labor and be reasonably rewarded, as well as having some protection from external shocks. Beyond income and basic services, 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.

The PRS definition of poverty includes income and non-income dimensions, measuring poverty in terms of income, nutrition, education, health, and empowerment. Its interpretation of poverty closely mirrors the Millennium Development Goals. Given the scale of poverty in the region, PRS gave priority to reduction in 'absolute poverty'. At the same time, PRS acknowledged that poverty could also stem from inequality in the distribution of assets and incomes.

Conceptual Framework

The PRS framework focused Asian Development Bank (ADB) activities for poverty reduction around three pillars—pro-poor sustainable economic growth, social development, and good governance. It also included four supportive crosscutting priorities¹: good governance, private sector development, gender, and environmental sustainability.

Implementation Framework

Three key changes were introduced in ADB's operational processes: (i) a requirement that country strategies and programs be formulated on the basis of their contribution to poverty reduction; (ii) a commitment to lend 40% for poverty interventions (household/individually targeted interventions); and (iii) ex-ante priority lending to sectors that contributed to poverty reduction.

Source: ADB. 1999. *Fighting Poverty in Asia and the Pacific: The Poverty Reduction Strategy*. Manila. Available at <http://www.adb.org>.

⁵ Background papers were prepared on poverty in Asia and the Pacific, the role of growth and social development in poverty reduction, the role of infrastructure on poverty reduction, impact of the Poverty Reduction Strategy (PRS) on country-level operations and project designs, monitoring of the PRS, and assessments of poverty assessments and country strategies and programs. In addition, six country case studies were developed to summarize the changes in ADB operations following the PRS.

⁶ More than 150 staff members were consulted.

⁷ The six developing member countries were the People's Republic of China, India, Kyrgyz Republic, Papua New Guinea, Sri Lanka, and Viet Nam.

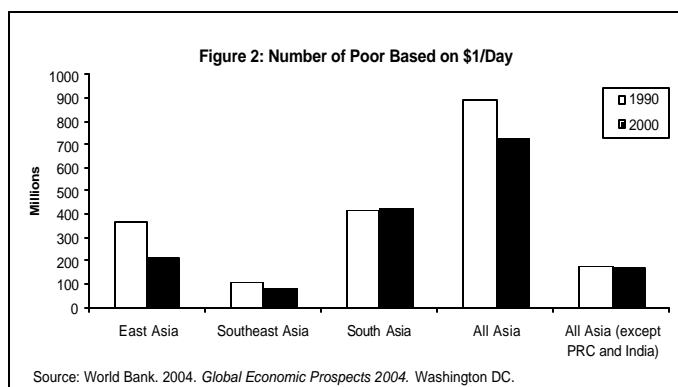
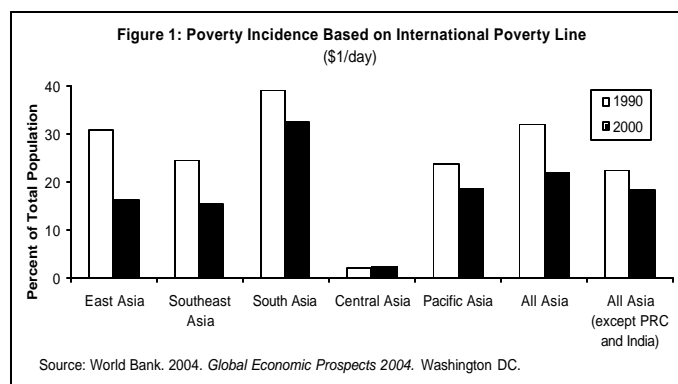
II. POVERTY IN ASIA AND THE PACIFIC

6. This chapter discusses the experience of Asia and the Pacific in reducing poverty. The first section examines the level and nature of poverty in the region. This is followed by a discussion of key factors to poverty reduction in the region, and whether the three pillars of the PRS are aligned with the regional experience. The chapter concludes with a brief review of recent changes in the global economic and political scenario and their likely impact on poverty reduction efforts in the region. The relationship between the pillars and the MDGs⁸ is also discussed.

A. Poverty in Asia and the Pacific⁹

7. Asia and the Pacific's track record in the 1990s in reducing income poverty has been impressive. Poverty incidence, using a one-dollar a day standard, declined by about 30% over the decade.¹⁰ In 1990, about 32% of people in the region lived below the poverty line. By 2000, this proportion had come down to 22% (Figure 1).¹¹ The absolute number of poor also declined by around 180 million, from 900 million in 1990 to 720 million by the end of the decade (Figure 2). This was achieved in spite of a major financial crisis in 1997 that depressed regional growth and increased poverty incidence.

8. The region's performance was driven largely by India and the People's Republic of China (PRC).¹² The rest of the region (excluding India and PRC) did not witness a decline in the number of poor over the decade, which remained at about 172



⁸ The Millennium Development Goals (MDGs) are a set of internationally accepted goals and targets that establish specific time frames for achieving key development objectives. A list of the MDGs and targets is in Appendix 2.

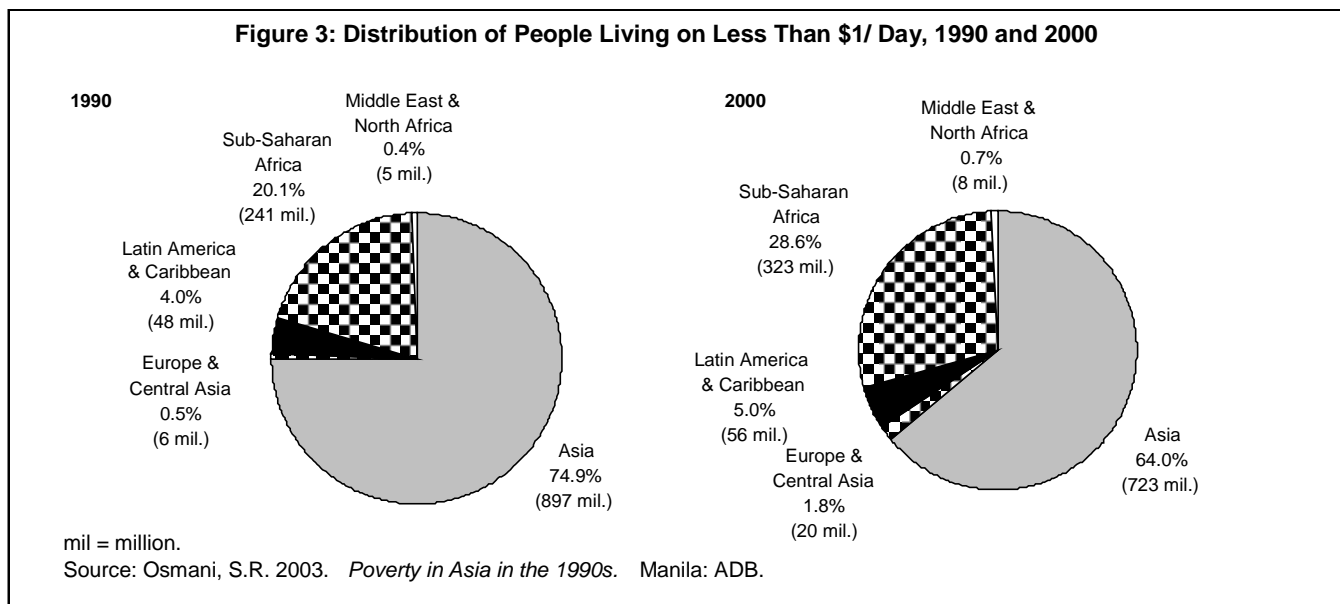
⁹ The income poverty estimates, and some estimates on non-income poverty, are based on a background study undertaken for the PRS review. S.R. Osmani. 2003. *Poverty in Asia in the 1990s*. Manila: ADB. The non-income poverty estimates are supplemented by data from UNDP. 2003. *Human Development Report 2003*. New York and ESCAP and UNDP. 2003. *Promoting the Millennium Development Goals in Asia and the Pacific*. New York: UN. 2003.

¹⁰ Most countries use their own definitions of poverty for policy purposes. The common international standard of one-dollar a day, adjusted for purchasing power parity, is used here to discuss poverty in Asia and the Pacific. Using a two dollar a day poverty line, the number of poor in Asia and the Pacific declined from around 2,065 million in 1990 to around 1,925 million in 2000, a decrease in poverty incidence by this standard from 76% in 1990 to 61% in 2000. Excluding PRC, poverty incidence dropped from 80% in 1990 to 70% in 2000, although the number of poor rose slightly from about 1,266 million in 1990 to around 1,326 million in 2000.

¹¹ Rural poverty in Asia and the Pacific declined from 39% to 28%, while urban poverty declined at a more modest pace from 24% to 20%.

¹² Over the same period, poverty incidence declined from 41% to 33% in India, and from 31% to 16% in PRC. The number of poor fell from 352 million to 335 million in India, and from 372 million to 216 million in PRC.

million, although the poverty incidence fell from 22% to 18%.¹³

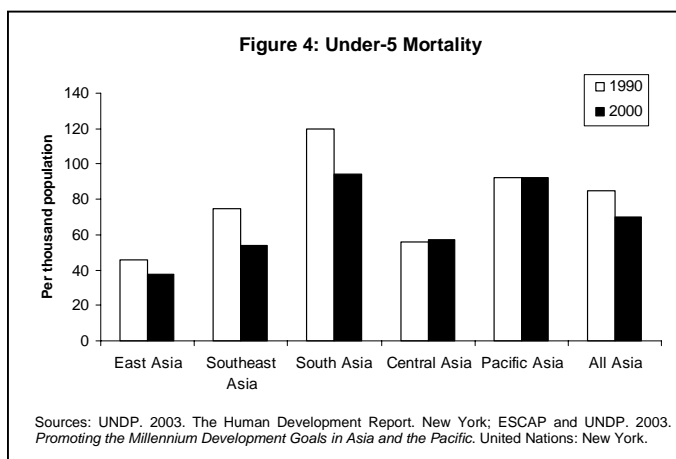


9. The region's poverty reduction in the 1990s contrasts with that of other developing regions where the number of poor people increased (Figure 3). An important reason is that the region experienced faster economic growth than the others. The same is true within the region. East and Southeast Asia, which experienced the largest decrease in poverty, also had the fastest annual growth in per-capita income of 6.4% during the 1990s.

10. Given continued growth, Asia and the Pacific appear to be on track for meeting the MDG for income poverty, with some caveats (Appendix 3):

- Several countries are likely to be left behind.
- Countries that meet the target will still have sizeable pockets of poverty.
- In middle-income countries, poverty could manifest itself as 'relative poverty' through a worsening income distribution accompanying economic growth.

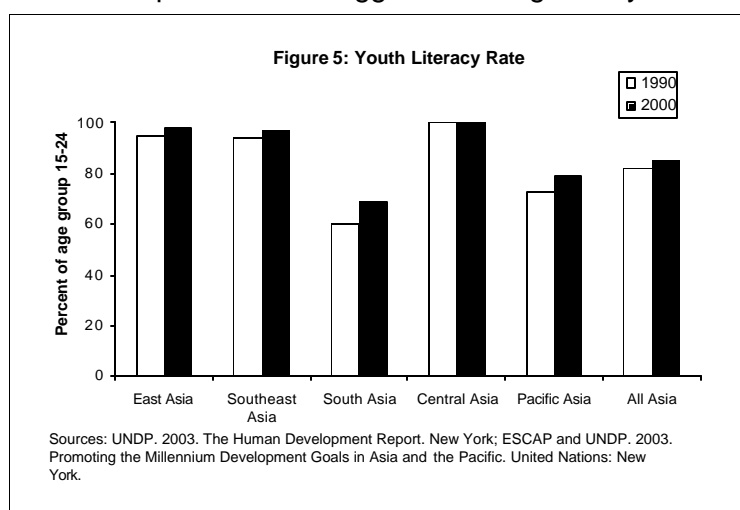
11. The non-income dimensions of poverty have seen much less progress in Asia and the Pacific, putting into question the likelihood of achieving non-income MDGs. For instance, under-5



¹³ In Pakistan, however, poverty is estimated to have increased from 24% to 37% over the decade. With better growth performance, and more emphasis on social sector investment, the trend is beginning to reverse. In Central Asia, poverty incidence was also higher at the end of the 1990s, but there are indications that these economies are experiencing a decline in poverty from the peaks of mid-1990s.

mortality has come down from 85 per 1,000 live births in 1990 to 70 in 2000, a progress too slow to meet the MDG target of reducing under-5 mortality by two-thirds by 2015. Central Asia and the Pacific have made no progress in this regard while East Asia has made only modest progress. But the biggest problem lies in South Asia, where under-5 and infant mortality remain exceptionally high. In South Asia, under-5 mortality declined slowly in the 1990s from 120 per 1,000 live births to 94, while infant mortality was reduced from 69 per 1,000 live births to 58 (Figure 4). South Asia's progress also remains slow in reducing the proportion of undernourished children, expanding immunization coverage, increasing the numbers of births attended by skilled health staff, and combating HIV/AIDS. These problems are linked to the poor status of women in this subregion.

12. Improvements to educational achievement have also been modest. Youth literacy has risen only marginally from 82% in 1990 to 85% in 2000 (Figure 5). In this respect, too, the MDG seems unachievable. As with health, South Asia presents the biggest challenge. Only 68% of children in South Asia reached grade 5, while enrollment increased from 79% to 89% during the 1990s. Modest progress has been made in achieving gender equality, with the ratio of literate females to males rising from 0.72 to 0.80 in the 1990s. The track record in meeting the seventh MDG, especially halving the proportion of people without access to safe drinking water and a significant improvement in the lives of slum dwellers, has been mixed as well.



13. Low-income countries in the region generally tend to underinvest in social sectors. Households finance a large proportion of investment in health and education in these countries, a regressive way of paying for social services. Public expenditure is inadequate and often fails to reach the poor.¹⁴

14. Countries with low social indicators have typically experienced sluggish economic growth, which has constrained government revenues. With competing pressures on expenditure, social sector investments tend to receive a low priority. Acceleration of economic growth, together with improvements in fiscal management and prioritization of expenditures, is necessary to generate the necessary resources for social sector investments. Public policy will simultaneously need to ensure that programs, especially in health and education, are well targeted and effectively delivered.

¹⁴ For details, see World Bank. 2004. World Development Report 2004: Making Services Work for Poor People. Washington DC.

B. The Relevance of the Three Pillars

1. Role of the Three Pillars in Poverty Reduction

15. The Asian experience in tackling poverty suggests that the conceptual framework of the PRS remains valid. The three pillars that constitute the framework are closely linked. Successful pursuance of poverty reduction requires policies that simultaneously strengthen all three pillars (Appendix 4).

16. Empirical evidence across countries demonstrates that robust and sustained pro-poor economic growth is the single most important factor in attaining rapid poverty reduction.¹⁵ Changes in poverty incidence depend on changes in the growth of average incomes, changes in its distribution (inequality), and on the initial level of inequality. The experience of the East and South East Asian economies highlights the importance of dynamic public policy and an active role of the state in providing the conditions for rapid growth.¹⁶

17. Poverty reduction is greater where a comprehensive program for social development complements policies for accelerating economic growth. The Asian experience highlights the role of public policy in reducing inequality of opportunity by empowering the poor through education, better health, and greater participation in economic and social activities. This approach ensures that growth is inclusive and increasing segments of the population have a stake in maintaining it. Progress in improving education and the health of the poor are most important for sustaining pro-poor economic growth. Empirical evidence suggests that countries with weak health and education indicators tend to experience sluggish economic growth.¹⁷

18. Evidence across the region indicates that capacity for formulating and implementing appropriate macroeconomic and social protection policies, accountability in fiscal administration, and efficient delivery of public services are crucial for achieving inclusive growth.¹⁸ The importance of adequate institutional capacity and a market-supportive regulatory framework emerges strongly from operational experience in transition economies. Implementing country-specific programs for improved governance thus becomes one of the primary objectives for development assistance.

¹⁵ ADB. 1997. *Emerging Asia*. Manila; World Bank. 2000. *Attacking Poverty, World Development Report 2000/2001*. Washington DC; World Bank. 2000. *The Quality of Growth*. Washington DC; Stiglitz, J. and S. Yusuf. eds. 2001. *Rethinking the East Asian Miracle*. Oxford; Quibria, M.G. 2002. *Growth and Poverty: Lessons from the East Asian Miracle Revisited*. Tokyo: ADB Institute.

¹⁶ For a detailed discussion of the role of the state in promoting inclusive growth in Asian economies, see ADB. 1997. *Emerging Asia*. Manila, and the relevant background papers; Amsden, Alice. 2001. *The Rise of the Rest*, Oxford University Press; UNDP. 2003. *Human Development Report 2003*, New York. (Chapter 4).

¹⁷ Bloom, D. E, and J. D. Sachs. 1998. Geography, Demography, and Economic Growth in Africa. *Brookings Papers on Economic Activity* 2: 207-295. A typical multi-variate regression equation result suggests that a 10% improvement in life expectancy at birth (proxy for health) is associated with a rise in economic growth of about 0.3-0.4 percentage points per year. Also see Bhargava, A., Jamison, D.T., Lau, L.J., Murray, C.J.L., 2001. Modeling the Effects of Health on Economic Growth. *Journal of Health Economics*, 20, pp. 423-40. Cole M. and E, Neumayer. 2003. The Impact of Poor Health on Total Factor Productivity: Some Empirical Investigation. *Economics Working Paper Archive at WUSTL, series HEW no. 0312001*.

¹⁸ These are some core components of a good governance framework, which includes accountability, transparency, predictability, and participation. For more discussion see, R. Sudan, 2003, Use of Information Technology for Poverty Reduction: A Case Study of Efforts in the Indian State of Andhra Pradesh in Edmonds, C (ed.) 2003, *Reducing Poverty In Asia*, Manila; ADB. Schiavo Campo, S. and P. Sunderam. 2001. *To Serve and To Preserve: Improving Public Administration in the Competitive World*, Manila, ADB.

2. The Three Pillars and the Millennium Development Goals

19. The three pillars of the PRS are closely aligned to measures required for meeting the International Development Targets (adopted in 1995, and subsequently expanded to MDGs). All three pillars are necessary for achieving the MDGs. The social development pillar is linked to the MDGs of achieving universal primary education, reducing child mortality, improving maternal health, and combating HIV/AIDS, malaria, and other diseases. The pillars of social development and pro-poor sustainable economic growth support MDGs relating to gender equality and environment sustainability. Good governance is essential for meeting all MDGs by ensuring transparent use of public funds, effective delivery of public services, the curbing of corruption, and establishing the rule of law.

C. New Challenges and Opportunities: Implications for Poverty Reduction

20. The economic and political environment within the Asia-Pacific region and the world has changed significantly since the adoption of the PRS. The likely impact of these changes on poverty reduction in the region is discussed below.

1. Uncertain Global Environment

21. In the 4 years since the PRS was adopted (2000-2003), the region has grown at only 5.5% per year, well below its potential growth rate of around 7%, achieved during the 1990s.¹⁹ In the next 2 years, economic growth in the region is likely to improve,²⁰ but the downside risks are significantly higher than in the past decade. These risks result from greater global political instability, and economic uncertainty due to weaker global macroeconomic conditions. If these downside risks do materialize, governments will need to take steps to minimize their adverse impact, particularly on the poor. Public policy will need to devise measures to ensure that slower growth is not accompanied by increased income inequality, and that budgetary allocations for social sectors are protected.

22. The region has also been adversely affected by global security concerns, conflict, and natural calamities (including epidemic diseases). These have impacted the regional economy by constraining capital flows and earnings and by diverting public resources away from poverty programs. The increased vulnerability of the region has raised transactions costs through higher freight and insurance charges. There has also been a marked decline in tourist arrivals to the region. Addressing security concerns will inevitably require higher budgetary allocations, better surveillance and intelligence gathering capabilities, and more effective international cooperation. The added fiscal burden on countries most directly affected could further divert resources away from poverty alleviation initiatives.

23. ADB's capacity to influence these issues is limited. Nevertheless, ADB will increase monitoring and surveillance of the likely impact of global developments on DMCs, to provide early warning to governments, and work with them to devise appropriate policy responses. Specific initiatives in key areas are also being taken. ADB is developing a new lending modality for emergency assistance, and will play an active role in curbing money laundering.

¹⁹ This reflects the fact that for the third year in a row, the global economy has grown only modestly, averaging 1.66% per annum over 2001-2003 compared to a growth rate of 2.6% per annum over 1991-2000.

²⁰ The Asian Development Bank has recently revised upwards its forecast for the economic growth in the Asia-Pacific region from 6.1% to 6.4% in 2004 and 6.5% in 2005.

2. Enhanced Regional Economic Integration

24. Over the last decade, parts of the region have become more integrated because of closer economic and political ties. Regional trade has been spurred by internationalization of production, or “production sharing.” Cross-border production has been facilitated by improvements in transportation, coordination, and communication technologies. With enhanced regional integration, regional economic performance has become somewhat less linked to global economic trends. This is reflected in the resilience of the regional economies to the prevailing uncertain global economic environment.

25. Over the last 2 years, PRC has emerged as the major growth engine for regional trade. For several economies in East Asia and Southeast Asia, the share of exports going to PRC has doubled since the year 2000. The prospects for a breakthrough in subregional integration in South Asia have emerged with the recent South Asian Association for Regional Cooperation (SAARC) summit in Islamabad in January 2004. Since ADB’s annual meeting at Chiang Mai in 2000, significant advances have been made in putting together a regional economic formation, comprising Association of Southeast Asian Nations (ASEAN) and three large Asian economies (Japan, the Republic of Korea, and PRC). The ASEAN+3 initiative has resulted in the establishment of a regional economic monitoring unit in ADB, and initial steps for developing regional financial markets.

26. Regional economic integration can be further increased when DMCs’ actively pursue regional and subregional cooperation at the state and sub-state level. This will accelerate economic growth by enlarging the market size, exploiting economies of scale, and promoting a better division of labor. Regional cooperation can also spur private sector development, promote peace and stability, and provide greater economic opportunities to people living close to the borders—often among the poorest in many countries. Cooperation is important for the provision of regional public goods that address joint constraints and opportunities such as prevention of communicable diseases, and policy research.

3. Global Trade and Aid Issues

27. The achievement of MDGs 1 to 7 is widely regarded as critical to reducing poverty. MDG 8 is equally necessary. MDG 8 requires a collaborative effort between the developed and developing countries to deal with pressing global economic and trade issues that will facilitate the achievement of MDGs 1 to 7. Indeed, it is unlikely that the other MDGs can be attained without fulfilling the commitments under MDG 8.

28. MDG 8 commits developed and developing countries to working together toward creating an open trading and financial system that is rules-based, predictable, and nondiscriminatory.²¹ Progress in this regard has been adversely affected by the breakdown of the World Trade Organization (WTO) trade talks at Cancun. As the region’s past economic success has been closely linked to progressive multilateral trade liberalization, it is to Asia’s advantage that the trade talks resume soon and conclude successfully. Conservative estimates indicate that additional aid of around \$50 billion a year is required up to year 2015 to meet the

²¹ Exports of least-developed countries would be allowed access without tariffs or quotas and the burden of debt of the heavily indebted countries would be addressed through cancellation of official debt and more generous inflows of official development assistance (ODA).

non-income MDGs.²² A significant share of this is required for Asia and the Pacific, since the region has the majority of the world's poor and lags behind in non-income MDGs.

D. Summary

29. The region's performance in reducing income poverty has been impressive. However, with over 700 million people living on less than one-dollar a day, and an additional 1,200 million people living on incomes below two-dollar a day, the region has a long way to go before poverty is eliminated. Relatively slow progress on non-income dimensions of poverty requires that regional governments spend more resources on social development, and public policy will need to ensure that these interventions are well targeted and effectively delivered. Improved governance will play a central role in the process. The regional experience confirms that the three pillars of the PRS constitute a robust and consistent strategy for poverty reduction.

III. PRS IMPLEMENTATION AND KEY ISSUES

30. The review focuses on ADB's efforts to influence DMC policies, and to align its operations in response to the PRS.²³ This chapter assesses how ADB implemented the PRS, and identifies the issues and problems encountered in the process. The first section reviews the impact of the PRS on country-level operations, and is followed by an assessment of changes in lending and nonlending operations and policies and strategies. The penultimate section examines how ADB realigned its financial and organizational capacity in response to the PRS, and the extent to which it succeeded in further improving its relationships with other development partners. The chapter concludes with an overall assessment of the experience in PRS implementation and key lessons learned.

A. Country-Level Operations

1. New Approaches

31. Recognizing the differences in the causes, nature, and severity of poverty across the region, the PRS recommended a country-specific approach to poverty reduction. Three modalities were introduced to develop country strategies: (i) thorough poverty assessments (PA) to be used to determine poverty reduction targets and strategic priorities with country stakeholders and development partners at a high-level forum; (ii) poverty partnership agreements (PPA) that reflect priorities agreed between governments and ADB; and (iii) country strategies and programs (CSPs) based on country-specific analyses of the poverty situation and needs, ADB's own capacity, and programs of development partners.

32. Poverty assessments were completed in 22 out of 37 DMCs, while another 9 are currently being prepared. Some assessments, such as in Azerbaijan, Bangladesh, India, Nepal, Pakistan, the Philippines, and Viet Nam, were done jointly with other development partners. As in the case of the Kyrgyz Republic, wherever possible, ADB has made extensive use of poverty assessments undertaken by other development partners. So far, 24 PPAs were concluded between DMC governments and ADB.

²² United Nations' Zedillo Commission. *Report of the High-Level Panel on Financing for Development* presented to the General Assembly 28 June 2001, New York.

²³ The review was constrained by the lack of a comprehensive framework to monitor or evaluate PRS implementation or impact.

33. The CSP is ADB's principal instrument for planning country activities. The PRS explicitly suggested a sequential approach for preparing the CSPs, which were to be "formulated on the basis of the priorities emerging from the poverty analysis and the high-level forum." Ten CSPs have been prepared and approved during the past 4 years (2000-2003).

2. Qualitative Assessment of Country Operations

34. The task force assessed 20 of the 22 PAs completed so far and examined the extent to which they influenced the design of CSPs. The objective of this assessment was to (i) evaluate the quality of PAs in terms of their completeness, technical soundness, and analytical rigor; and (ii) examine whether the CSPs reflected the findings of the PA and used them to design innovative country strategies and programs. The criteria used to evaluate PAs and CSPs are in Appendix 5.²⁴ A summary of the assessments is given below.

35. **Poverty Assessments.** Poverty analyses were assessed according to four criteria: (i) the use of a good income-poverty database from a national household survey to enable comparability over time; (ii) data on non-income poverty indicators related to five different sectors; (iii) quality of analysis of the causes of poverty and government policies to address them; and (iv) the scope, coverage, and quality of policy recommendations made in the PA.

36. The evaluation reveals a mixed picture. A positive common feature of the PAs was the use of household surveys to analyze income poverty incidence. Almost all PAs used such data, with most using results from at least two annual surveys to analyze the trend in poverty incidence. All PAs focused on education and health, for which data was richer than for other non-income poverty indicators. However, almost none provided data on access to water and sanitation, although these are easily available from several secondary sources.

37. A weakness in almost all PAs was a lack of analytical framework.²⁵ Only one PA had a well-thought-out conceptual framework for analyzing the causes of poverty and included different estimates of poverty. Some PAs do not identify or discuss causes of poverty, and in another case, a critical macroeconomic weakness was identified as the exclusive cause of widespread poverty. In some cases, existing data from reliable secondary sources was not utilized. In general, the analyses did not address issues of depth or severity of poverty, nor did many of them provide inequality indicators such as the Gini coefficient. Most PAs referred to the NPRS and commented on it, albeit with varying quality, and presented a reasonable set of policy recommendations.²⁶

38. Most PAs do not discuss the relationships between incidence of poverty and crosscutting priorities. These priorities are always discussed in the CSP, based on separate thematic assessments. However, the linkages between the discussion on these priorities and constraints to poverty reduction are often not clear.

²⁴ An intermediate component of such an evaluation would be to examine if the poverty partnership agreements (PPA) truly reflected the findings of the poverty assessments (PA) and if the features and recommendations contained in the PPAs were used for designing country strategies and programs (CSPs). This would have added some complications, because in some cases national poverty reduction strategies and PPAs were both completed and the former was often used as a basis for the CSP and improving coordination with other development partners.

²⁵ For example, the poverty assessments do not use rigorous analytical methods such as regression analysis for examining the significance of particular characteristics in explaining poverty.

²⁶ One poverty assessment did not include any recommendations.

39. **Country Strategies and Programs.** The following three criteria were used to assess the quality of the 10 CSPs approved by 2003: (i) the quality of poverty analysis contained in the CSPs using the results of the PAs, NPRSs or other sources; (ii) the identification of constraints to poverty reduction and the use of the analysis in formulating the country strategy; and (iii) the extent to which the lending and nonlending programs relate clearly to the findings of the PAs and NPRSs.

40. CSPs generally became more sharply focused on poverty reduction around the three pillars and crosscutting priorities. Some CSPs also had a specific geographical focus to achieve a greater poverty reduction impact.²⁷

41. As in the case of PAs, the quality of CSPs completed during the last 4 years was variable. Overall, there was a greater focus on poverty in the discussion and operational program recommended by the CSPs. In keeping with the PRS guidelines, all CSPs seek to frame ADB strategy in the context of poverty analyses undertaken either by ADB itself or by other development partners. A few also made use of NPRS findings and recommendations. Some CSPs, however, appeared to have been prepared almost in parallel with PAs. Preparing CSPs after PAs would have better followed PRS guidelines, and would have allowed the CSPs to fully benefit from analyses undertaken in the PAs. Quality was clearly higher for CSPs that were prepared based on complete, high-quality PAs.

42. While all CSPs referred to preceding PAs, many CSPs did not fully reflect the PA findings even when the findings of the PAs were specific and relevant. For example, a few CSPs emphasized weak infrastructure capacity as one of the principal constraints to growth and poverty reduction, although this was not highlighted in the preceding PAs. To supplement the findings of the PAs, CSPs often used additional data and analysis, and developed an independent justification for the strategies and programs recommended.²⁸ Only about half the CSPs identified the constraints to poverty reduction and attempted to formulate their program to address these constraints. A few CSPs attempted to complement the analysis contained in their preceding PAs by accessing data on poverty from development partners and other sources. This generally improved the discussion on poverty and its causes.

3. Policy Dialogue

43. Implementation of the PRS led to a sharper poverty focus in ADB's policy dialogue with DMCs. This enabled ADB to actively contribute to the formulation and implementation of more pro-poor macro- and sector-level policies in individual countries. The basis for these policy discussions was provided by poverty assessments and other analytical work. ADB also assisted in the preparation of NPRSs in many DMCs, including Azerbaijan, Bangladesh, Cambodia, Kazakhstan, the Kyrgyz Republic, Lao PDR, Papua New Guinea, Tajikistan, Viet Nam, and Uzbekistan, working closely with other development partners (para. 60). At the sector level, ADB policy dialogue became more sharply focused on removing policy and institutional constraints to poverty reduction (para. 57). In some countries, this aimed at public expenditure reforms to improve access to basic social services by the poor (Box 2).

²⁷ For example, the focus has shifted in PRC to the western and central provinces; in Viet Nam to the Central Highlands; in Cambodia to the Tonle Sap basin; in India to the provinces of Madhya Pradesh, Chattisgarh and Kerala; and in Lao PDR to the northern provinces.

²⁸ There were, however, also cases in which country strategies and programs suffered because they ignored the findings and recommendations of high-quality poverty assessments.

Box 2: Supporting Pro-Poor Policies in Developing Member Countries

Social Protection in Kazakhstan

Asian Development Bank's (ADB's) policy dialogue contributed to an emerging policy stance of the government in support of (i) fiscal expansion, (ii) improved social security, and (iii) increased social-sector expenditure. The policy dialogue was based on analytical work undertaken for the Kazakhstan country strategy and program. The analysis highlighted the need to raise public expenditure to reverse declining social-sector spending and worsening public services.

Public Expenditure Reforms in India

In the Indian states of Madhya Pradesh and Kerala, ADB-assisted public resource management programs led to enhanced

resource allocation to social sectors. This was achieved through public sector reforms, including capacity building and institutional strengthening for improved fiscal capability and management.

Health Care for the Poor in Viet Nam

Supported by ADB's analytical work and policy dialogue, the Vietnamese Ministry of Health established health care funds for the poor in all provinces to ensure access of the poor to basic health services. This ambitious policy, approved in 2002, will benefit 15 million poor people and significantly improve their chances to escaping poverty. The policy was based on research findings that poor health and large private expenditure on health care kept poor households in a "medical-poverty trap."

B. Poverty Reduction Framework: The Pillars and Crosscutting Priorities

44. The PRS assumed that support for the three pillars and four crosscutting priorities would be the main focus for ADB operations.²⁹ This section assesses the extent to which this assumption was correct.

45. **The Pillars.** Any attempt to assess the nature and quality of ADB's operational support for the pillars suffers from the absence of an appropriate tracking system that related individual operations to one or more pillars. Such a tracking system was neither specified in the PRS nor developed subsequently. A simulation based on the existing project classification has been undertaken as an approximation.³⁰

²⁹ The four crosscutting priorities of the Poverty Reduction Strategy (PRS) were replaced with the following three in the Long-Term Strategic Framework (LTSF): private sector development, environmental sustainability, and regional cooperation. This review takes the view that the three pillars are complemented by four crosscutting priorities (private sector development, environmental sustainability, gender and development, and regional cooperation), contained in the PRS or LTSF.

³⁰ The simulation was based on the strategic development objectives and assessments of individual reports and recommendations of the President for projects approved in 1997-2000, and the thematic classifications for projects approved in 2001-2003. The thematic classification system has six categories: economic growth, environment, gender and development, governance, human development, private sector development, and regional cooperation. The system allows each project to be classified in up to two categories. Based on the initial screening of the approved projects, the assumption was made that projects classified as (i) economic growth, environment, private sector development, and regional cooperation are supporting the pro-poor sustainable economic growth pillar; (ii) gender and development, as well as human development, was supporting the social development pillar; and (iii) governance was supporting the governance pillar. Where projects are classified only as promoting environmental sustainability, private sector development, or regional cooperation, a pillar was assigned based on their second thematic category.

Table 1: ADB's Lending Operations in Support of the Pillars
(1997-1999, 2000-2003, \$'000)

| Pillar | 1997-1999 | | 2000-2003 | |
|--|-----------|--------|-----------|--------|
| | Number | Volume | Number | Volume |
| A. Pro-poor Sustainable Economic Growth | 39 | 2,813 | 50 | 4,367 |
| B. Social Development | 27 | 1,538 | 31 | 1,492 |
| C. Good Governance | 7 | 525 | 18 | 1,489 |

Notes:

1. Total number and volume of loans exclude loans that were extended in response to the Asian financial crisis.
2. Some loans are classified under more than one pillar.

Source: Asian Development Bank Project Processing Information System data.

46. ADB's lending operations supporting the growth and governance pillars increased significantly between 1997-1999 and 2000-2003 (Table 1). A large share of operations supporting the growth pillar during the pre- and post-PRS periods concerned infrastructure investments. The role of infrastructure in reducing poverty is empirically well established (Box 3 and Appendix 6 for detailed discussion). However, support for the social development pillar remained stagnant.³¹ This perhaps reflects the strong DMC preference for ADB support for infrastructure.

47. The simulation exercise reveals a distinct trend in the allocation of different funding sources to the three pillars. For growth, OCR operations almost doubled while ADF operations remained the same. For social development, OCR operations saw a sharp decline mainly because some DMCs recently stopped borrowing from OCR for social development projects. However, this was compensated by a similar increase in ADF operations. Support for governance increased considerably for both OCR and ADF operations.

48. **Crosscutting Priorities.** The PRS (and the LTSF) called for greater operational emphasis on the four crosscutting priorities. Analysis of the 1997-2003 lending program showed that gender received greater operational attention over time, while no apparent trend was observed for environment (Table 2). Greater emphasis on PSD and regional cooperation could

Box 3: How Infrastructure Investments Contribute to Poverty Reduction

A recent Asian Development Bank study in the People's Republic of China, India, and Thailand finds that a range of infrastructure interventions—including roads, railways, and rural electrification—have had significant positive effects on poverty reduction. An important finding was that transport and energy sector interventions not only raise incomes but also address non-income dimensions of poverty. Poor peoples' incomes and assets were increased by growth in productivity, agricultural wages, and nonfarm employment and incomes. Non-income dimensions were improved by increasing educational coverage and attainment (especially for girls), improving health status, empowering the poor to participate in civil society, and by increasing their security. Such effects were especially high where

- existing infrastructure coverage was limited, and poverty rates were high;
- policies promoted competition in transport services and facilitated electricity connections;
- government policies and programs supported the poverty-reducing activities that transport and energy would facilitate.

Source: RETA 5947: *Assessing the Impact of Transport and Energy Infrastructure on Poverty Reduction*

³¹ This trend does not change even after excluding India and the People's Republic of China.

not be established because data was not available. The current classification system does not fully capture the extent to which thematic priorities were mainstreamed in ADB operations.³² ADB needs to improve its tracking system as part of overall monitoring and evaluation to ensure better management of the PRS.³³

Table 2: Emphasis on Crosscutting Priorities, 1997–2003

(% of Total Approved Loan Projects)

| Crosscutting Priorities | 1997-1999 | 2000 | 2001 | 2002 | 2003 |
|----------------------------|-----------|------|------|------|------|
| Private Sector Development | — | — | 13 | 15 | 7 |
| Gender | 8 | 6 | 9 | 15 | 23 |
| Environment | 19 | 15 | 13 | 22 | 12 |
| Regional Cooperation | — | — | — | 9 | 1 |

— = not available

Note: Total project number and volume exclude loan extended in response to the Asian financial crisis.

Source: Asian Development Bank Project Processing Information System data.

C. Lending and Nonlending Programs

49. The PRS recommended that ADB focus on sectors and subsectors that particularly help the poor, and directly improve the participation of the poor in economic activities.³⁴ The PRS introduced a new project typology, consisting of pro-poor growth interventions and poverty interventions (PIs).³⁵ The PRS also specified a 40% lending target for PI to ensure that a significant proportion of ADB investments are directly focused on poor households. In addition, the PRS recommended changes in project designs—including poverty impact assessment, pro-poor monitoring and evaluation, increased decentralization, involvement of NGOs, adoption of participatory approaches, and placement of projects in poor areas—to maximize the benefits to the poor. This section summarizes trends in sector allocation, progress in meeting targets for PI projects, and changes in project designs since the adoption of the PRS.

³² The system allows only up to two themes to be assigned to a project.

³³ The Asian Development Bank has introduced an improved thematic classification system in 2004.

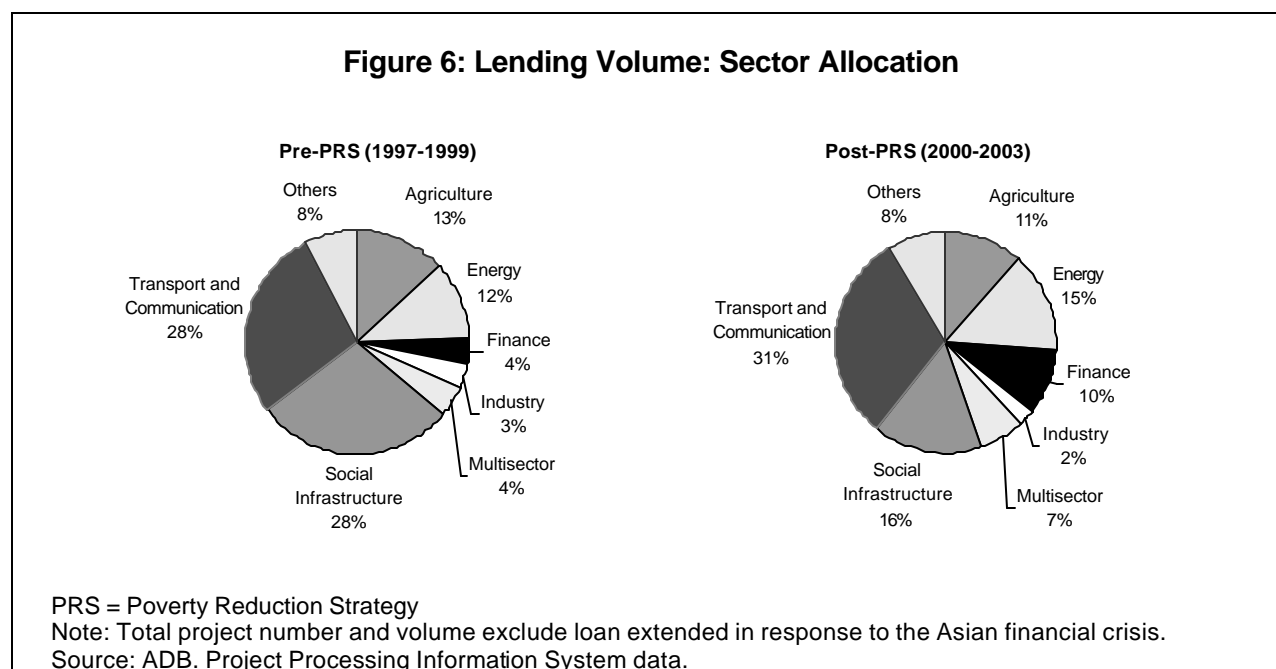
³⁴ For example, in infrastructure-related sectors, the Poverty Reduction Strategy stresses the need to focus on rural roads, rural electrification, small- and medium-sized enterprises, water supply, and sanitation. In social sectors, it emphasizes basic education, primary health care, and social safety nets for the poor. In agriculture and rural development, the PRS highlights the need to focus on areas bypassed by green revolution technologies. It also calls for greater attention to strengthening of rural institutions, more efficient information and technology transfer, better access to microfinance, and more efficient environmental resource management.

³⁵ Poverty intervention projects are defined to have larger proportion of poor beneficiaries than the country's poverty incidence.

1. Lending Operations

50. **Sector Allocations.** There has been an increase in the share of transport, energy, and financial sector operations in the period 2000-2003 compared to 1997-1999 (Figure 6, for details, Appendix 7). This came as a result of increased financing for these sectors through OCR, more than offsetting a small decline in ADF. The share for social infrastructure declined from 28% to 16% during the same period.³⁶ This is partly explained by the considerable expansion of ADB operations in India and the PRC, largely in physical and financial infrastructure. These countries do not have access to ADF, and prefer not to borrow OCR for the social sectors.

51. ADB reoriented its operations in some sectors in line with PRS-recommended priorities for pro-poor subsectors. The most significant realignment in operations occurred in agriculture, education, health, microfinance, and small- and medium-sized enterprise (SME) projects. For example, the share of lending in the rural and microfinance subsector has grown from 2% of total financial sector lending in 1999 to about 20% during 2000-2002. Similarly, ADB involvement in supporting SMEs has significantly increased in the last 3 years, both in public and private sector operations.

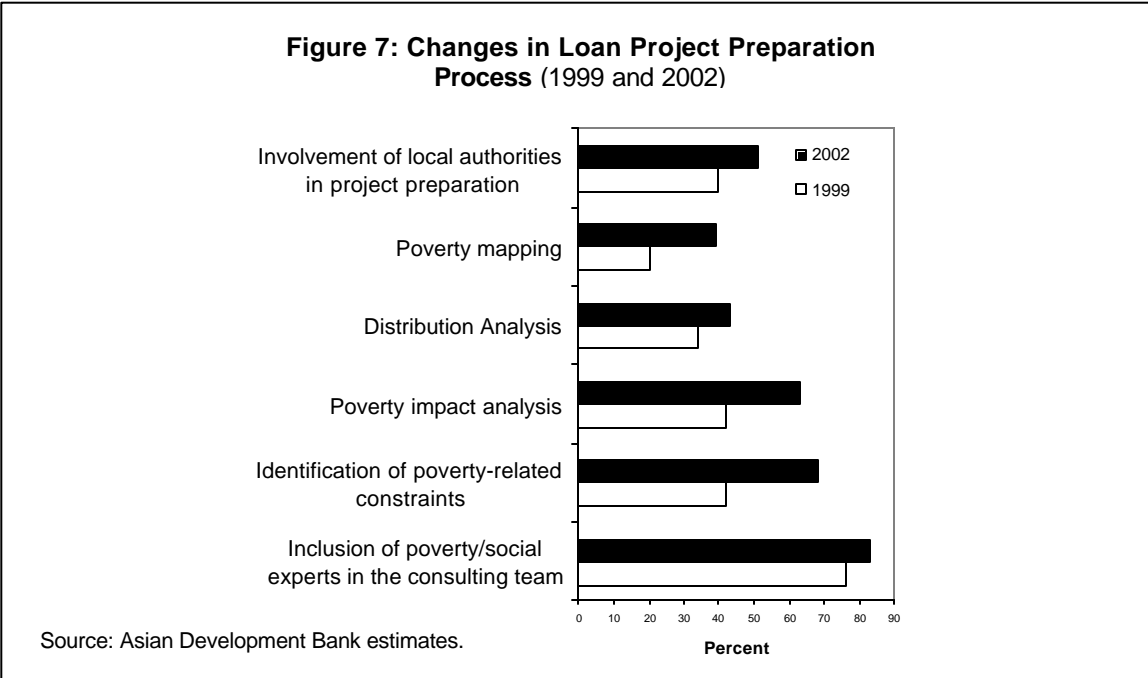


52. **Poverty intervention projects.** The proportion of projects classified as PI increased from 29% in 2001 to 42% in 2002 in lending volume, and reached 51% in 2003. The share rose from 21% in 2001 to 41% in 2003 for OCR-funded operations. The share of PI projects increased more sharply for ADF-financed operations, jumping from 53% in 2001 to 76% in 2003. ADB has exceeded the 40% lending target for PI projects in the last 2 years, but this has not been without costs (para. 56).

³⁶ Only social sector projects are classified under social infrastructure, which is a narrower concept than social development. It should also be recognized that transport and energy sector projects have a significant social impact. These projects contribute to poverty reduction both with respect to income and non-income dimensions (Appendix 6 for details).

53. **Project Preparation Process.** The PRS significantly influenced the project preparation processes and encouraged more participatory and pro-poor analytical approaches. A comparative analysis of all project preparation technical assistance (PPTA) projects approved in 1999 and 2002 is presented in Figure 7. Notably, stakeholder participation during project preparation increased in all sectors. The increase was particularly noticeable in infrastructure, where there was almost no community involvement prior to 1999. Resources allocated to organizing workshops for stakeholder feedback during project preparation more than doubled from 1999 to 2002.

54. Poverty-related analytical work during project preparation also considerably changed during the last 4 years. Increasingly, project preparation teams are using techniques such as poverty mapping, geographical information systems, and distribution analyses to strengthen the pro-poor focus of projects and to improve impact monitoring. Changes in project preparation increased the resource needs for preparing projects, both for ADB and DMCs. Staff feedback indicates a much greater share of staff time was devoted on such activities.



55. **Project Designs.** An assessment³⁷ of all projects approved during 1999-2002 reveals significant changes in project designs, especially in terms of (i) pro-poor monitoring; (ii) targeting of project benefits to the poor; (iii) decentralization of services; (iv) shifts towards PRS-recommended priority subsectors; and (v) integration of crosscutting priorities (Box 4, Figure 8).

³⁷ The review comprised assessment of 242 reports and recommendations of the President approved in 1999-2002.

Box 4: Reaching the Poor: Some Innovative Approaches

Public-Private Partnership for Health Services in Cambodia

The Ministry of Health contracted nongovernment organizations (NGOs) to deliver health services, as an alternative to conventional government service delivery methods, under the Basic Health Services Project. An independent evaluation showed that coverage of health services in the districts contracted to NGOs improved several fold within a short time. NGO-contracted services were more effective in reaching the poor: access to curative health services by the poor increased 6 to 8 times. The financial burden of health care on the poor also fell by more than 50%.

Community-Based Provision of Water in Pakistan

Using a community-based approach, the Punjab Rural Water Supply and Sanitation Sector Project provided safe drinking water and drainage

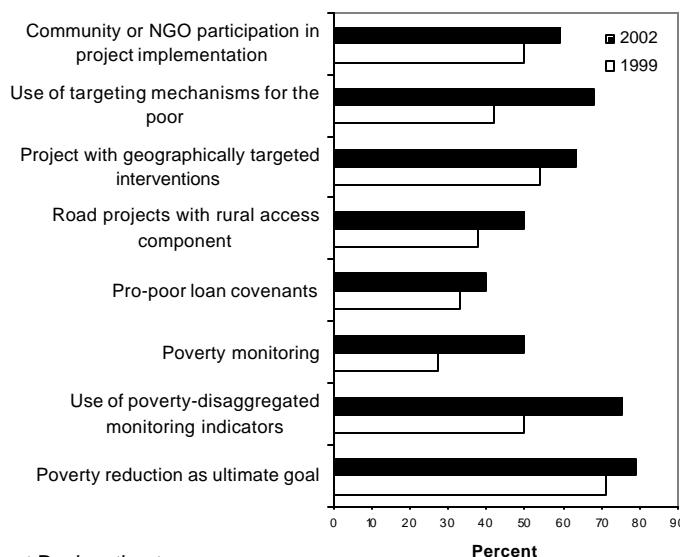
facilities to about 800,000 people. A survey found that the Project helped in reducing the time devoted by women and children for carrying water by 2 to 6 hours per day. It also found a more than 90% reduction in waterborne diseases, an average increase in household income by 24%, and an 80% increase in enrolment of school children.

HIV/AIDS Prevention in Transport Projects.

Several transport projects have integrated HIV/AIDS and human trafficking prevention. For example, the Western Yunnan Roads Development Project in the People's Republic of China has a component to support the prevention of HIV/AIDS among ethnic minorities affected by the project. Similarly, the Road Network Improvement Project in Bangladesh and the National Highway Corridor Development Project in India have HIV/AIDS prevention components aimed at construction workers and truck drivers.

Figure 8: Changes in Loan Project Features

(1999 and 2002)



Source: Asian Development Bank estimates.

56. Two principal issues were highlighted with respect to targeting project benefits. First, in some cases, additional components were included in projects to increase the incidence of

project benefits to the poor.³⁸ Some of these “add-ons” had inadequate technical justification. Such changes also increased the complexity and reduced the efficiency of the project. Second, household and individually targeted projects were generally more difficult to implement and monitor.³⁹ Development literature suggests that sustainability of benefits from such projects is often doubtful.⁴⁰ At the same time, DMCs found it difficult to monitor poverty at the project level. Monitoring of poverty is generally the responsibility of specific government agencies. Many sector agencies executing ADB projects do not have the mandate, nor the capacity or the financial resources to monitor poverty at the project level.

57. **Policy-Based Lending.** The poverty orientation of program lending improved in several ways. First, the focus in program lending shifted to new areas that specifically benefit the poor. Recently, several program loans targeted public administration reforms, access to justice, decentralization of social services, and strengthening of social security systems. In contrast, the major focus of the earlier program loans was on macroeconomic adjustment and pricing reforms (Table 3). Second, new approaches, including the poverty impact matrix and field surveys, were adopted to better assess, ex-ante, the impact of proposed policy change on poverty. These programs attempt to direct the benefits towards the poor, and help identify mitigation measures to minimize the adverse impacts. Third, more attention was given to public expenditure management to ensure adequate budget allocation for social sectors. Programs undertaken since the adoption of the PRS emphasize the provision of greater access to public goods and services for the poor and vulnerable groups.

Table 3: Changes in the Focus of Program Lending
(1991–2003)

| Period | Average Annual Number of Program Loans | | | |
|-----------|--|-------------------------------------|----------------------------|-----------------------------|
| | Price-Related Reforms | Market/Institution-Oriented Reforms | Public Institution Reforms | Macroeconomic /Crisis Loans |
| 1991-1995 | 2.0 | 0.8 | 0.0 | 0.0 |
| 1996-2000 | 0.8 | 3.6 | 3.6 | 2.4 |
| 2001-2003 | 0.6 | 4.6 | 6.0 | 0.3 |

Source: Asian Development Bank estimates.

58. **Project Implementation.** Most projects under implementation during the last 4 years were approved before the adoption of the PRS. Feedback from sector committees suggests that the PRS had no significant impact on administration of these projects. This is not surprising given that the PRS did not include any specific guidance on project implementation. Nonetheless, implementation indirectly benefited from increased poverty awareness among ADB staff. The institutional emphasis on poverty reduction led to changes in project design and implementation arrangements in some projects, particularly during midterm reviews (Box 5). Greater poverty awareness also helped raise the profile of projects with a poverty focus.

³⁸ For example, the proportion of road projects with rural access components increased to 50% in 2003 from 33% in 1999.

³⁹ Operational costs associated with projects that target a geographical area rather than households were considerably smaller. A large body of literature on the general principles of geographical targeting also points to easier implementation and monitoring, and lower administrative costs (for example, Bigman D. and H. Fofack. 2000. Geographical Targeting for Poverty Alleviation: An Introduction to the Special Issue. *The World Bank Economic Review*. Vol 14, no. 1: 129-45).

⁴⁰ Coady D., M. Grosh and J. Hoddinott. 2002. Targeting of Transfers in Development Countries: Review of Experience and Lessons. *Social Safety Net Primer Series*. World Bank: Washington DC.

Box 5: Making Projects More Pro-Poor During Implementation

Maldives

Postsecondary Education Development Project

The project supported construction of dormitories at the main campus of Maldives College of Higher Education in Male to benefit students from poor outer atolls. Midterm review in 2002 confirmed the approach, but also included components to build training capacity in outer islands and to reinforce training efforts through distance learning.

Viet Nam

Population and Family Health Project

Midterm review in 2000 led to reorientation of the project from fertility control to reproductive health of the poor. New activities were included to provide reproductive health services to poor households in remote areas.

Viet Nam

Forestry Sector Project

Midterm review in 2000 recommended use of poverty incidence as the main criterion for the selection of communes for interventions. The review also decided to introduce a beneficiary-based monitoring system to assess project impact on poor households.

Sri Lanka

Upper Watershed Management Project

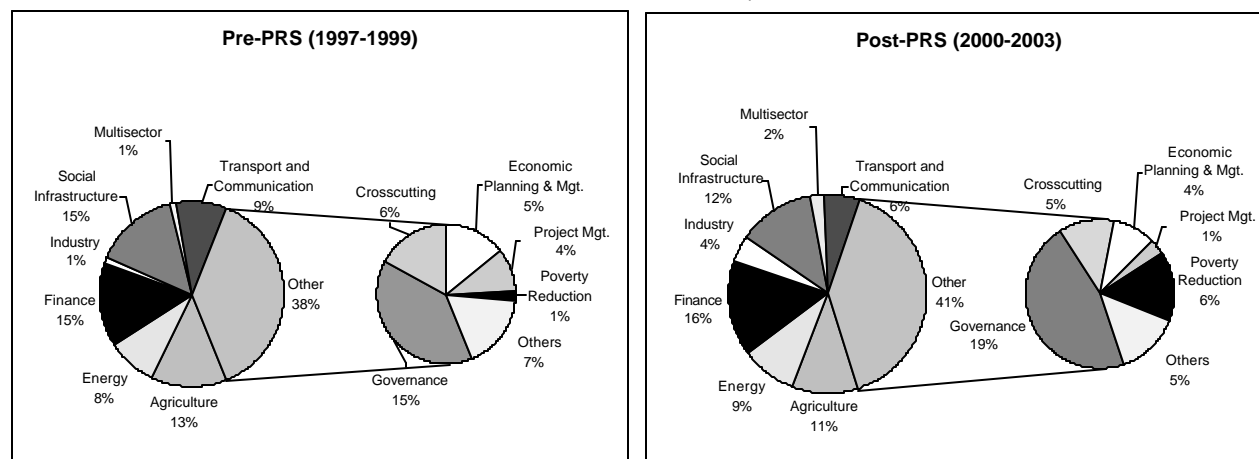
Midterm review in 2001 reconfirmed the project's poverty reduction impact. The review found the poverty reduction components were not being implemented well and singled out these components for special attention during implementation in the remaining period.

2. Advisory Technical Assistance

59. **Sector Allocation.** There has been some sectoral reorientation in advisory operations (Figure 9).⁴¹ ADB allocated the largest proportion of its ADTA resources for the governance pillar in the post-PRS period. Support for social infrastructure and agriculture decreased somewhat.

⁴¹ ADB's loan and technical assistance (TA) operations are categorized by eight sectors: agriculture, energy, finance, industry, social infrastructure, transport and communications, multisector, and others. To provide a better picture of areas supported by advisory TAs (ADTAs), ADTAs classified under "other" were further divided into six subcategories (i.e., governance, crosscutting priorities, economic planning and management, project management, poverty reduction capacity-building, and others).

Figure 9: Distribution of ADTAs by Sector
(% of Total Number)



ADTA = advisory technical assistance, PRS = Poverty Reduction Strategy

Source: ADB Project Processing Information System.

Note: Total number and volume of ADTAs exclude all ADTAs related to the Asian financial crisis and TA 3874:AFG-Capacity Building for Reconstruction and Development (approved in 2002 for \$14.6 million).

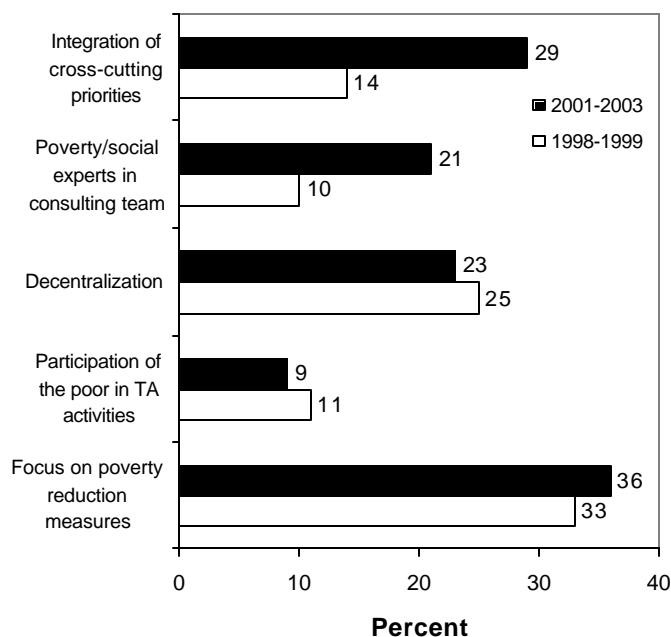
60. The ADTA program also responded to DMCs' capacity development needs related to poverty reduction. ADB provided a total of 24 ADTAs (amounting to \$10.1 million) in 17 DMCs to strengthen capacity for analyzing and monitoring poverty indicators. A further 19 ADTAs (amounting to \$7.7 million) were approved in 15 DMCs to directly help them formulate NPRSs. In total, these ADTAs represented 6.2% of the total ADTA approvals in 2000-2002, compared to 0.9% in 1997-1999.

61. **ADTA Designs.** A detailed analysis⁴² of the changes in ADTA designs in recent years shows a significant change in the poverty orientation since the PRS was adopted (Appendix 8). The analysis showed a general improvement in poverty orientation in ADTAs (Figure 10).

62. While the proportion of TAs with a direct poverty focus was highest in agriculture and social infrastructure, there were adjustments towards a greater poverty focus in the energy and transport sectors as well. Assistance was often provided for formulating plans and strategies to develop rural infrastructure (e.g., rural electrification and road networks) and promoting sector reforms.

⁴² The analysis was conducted through a review of about 360 advisory technical assistance reports, representing a 50% sample stratified by sector annually in the periods 1998-1999 (pre-Poverty Reduction Strategy) and 2001-2002 (post-Poverty Reduction Strategy).

Figure 10: Changes in Advisory Technical Assistance (ADTA) Designs
(1998-1999 to 2001-2002)



ADTA = advisory technical assistance.

Source: Asian Development Bank estimates.

D. Policies and Strategies

63. New ADB policies, policy reviews, policy-related action plans, and strategies approved in the last 4 years have closely followed PRS recommendations. They all make direct reference to the three-pillar PRS framework, as well as the crosscutting and sector priorities. ADB developed policies or strategies to support the operationalization of the three pillars and crosscutting priorities—the Private Sector Development Strategy in 2000, the Private Sector Operations Strategy in 2000, the Governance Action Plan in 2000,⁴³ the Environment Policy in 2002,⁴⁴ and the Water Policy in 2001.⁴⁵ ADB also prepared strategies for some new priority sectors identified in the PRS: the social protection strategy, and the microfinance development strategy.

64. ADB review of some sector policies offered an opportunity to realign them with the PRS. A review of the energy policy in 2000 sought to realign operations with the three pillars; emphasized support for pro-poor growth and access to energy for the poor, particularly in rural areas; identified private sector involvement, regional and global environmental impacts, and regional cooperation as key crosscutting issues. The approach to policy reviews—including that of the PRS itself—has also changed: policies and strategies are developed following extensive consultative processes involving various stakeholders including DMC governments, civil society, and development partners.

⁴³ ADB. 2000. Promoting Good Governance: ADB's Medium-Term Agenda and Action Plan. Manila. ADB. 1995. Governance: Sound Development Management. Manila.

⁴⁴ ADB. 2000. Environment Policy for the Asian Development Bank. Manila.

⁴⁵ ADB. 2001. Water for All: The Water Policy of ADB. Manila.

E. ADB's Resources

1. Financial Resources

65. Effective implementation of the PRS was based on the assumption that an adequate level of concessionary funds would continue to be available to ADB. However, funding during ADF VIII (2001-2004) has remained tight because of the growing needs of DMCs and the addition of new borrowers requiring urgent post-conflict rehabilitation and reconstruction. Some countries also required assistance to cope with natural disasters. In 2003, ADF lending had to be significantly reduced because of scarce resources. The situation is even more constrained in 2004.

66. There is a decline in TA resources available from what have been the major sources, the TA Special Fund (TASF) and the Japan Special Fund. In response, ADB has mobilized TA funds from several alternative sources. While these alternative resources have enabled ADB to sustain its TA operations, accessing them has involved additional staff time and reduced certainty over the funding of activities planned in CSPs.

67. Bilateral donors have created three funds to support ADB's poverty reduction initiatives. The Japan Fund for Poverty Reduction (Government of Japan) was established in May 2000, the Cooperation Fund in Support of the Formulation and Implementation of National Poverty Reduction Strategies in November 2001 (Government of Netherlands), and Poverty Reduction Cooperation Fund (Government of United Kingdom) in July 2002. These funds are specifically aimed at augmenting ADB's resources for supporting PRS implementation. While it is too early to assess the impact of these funds on ADB's poverty reduction related efforts, the following findings have emerged:

- (i) Since these funds can only be used for poverty-reduction-related programs and projects, they have created a clear incentive among staff to orient project designs toward addressing poverty.
- (ii) The funds have also provided welcome opportunities for pilot-testing innovative approaches for poverty reduction and strengthening ADB's relationship with NGOs.
- (iii) A common problem with these funds is that they are dealt with outside the CSP framework and hence cannot be programmed as part of ADB's overall country assistance. This is inconsistent with the primacy of CSPs based on NPRSs.

68. ADB also successfully mobilized resources to establish special funds to strengthen its work in governance, gender, water, and the environment.⁴⁶

⁴⁶These funds include (i) the Poverty and Environment Fund, established in 2003 with a combined initial contribution from Norway and Sweden of \$3.6 million; (ii) the Gender and Development Cooperation Fund, established in 2003 with a combined initial contribution from Canada, Denmark, and Norway of \$4.2 million; (iii) the Cooperation Fund for Water Sector, established in 2001 with a combined contribution from the Netherlands and Norway of \$13.5 million; and (iv) Governance Cooperation Fund established by the governments of Canada (2001), Norway (2002), Denmark (2003), for a combined total of \$5.1 million.

2. Lending Instruments

69. To focus ADB operations more sharply on poverty reduction, both the PRS and the LTSF recommended the use of several new instruments and modalities. Some progress has been made in this direction, including lending terms based on the London interbank offered rates (LIBOR). Pilot loans to test new approaches to poverty alleviation have made a tentative start in some DMCs. Direct lending to local governments gained momentum after the PRS was adopted, especially in the larger countries. A cluster approach has been attempted in several sectors to better sequence reforms, and their evaluation will indicate the extent of success over time. Similarly, a few sector-wide approaches have been used to coordinate and increase the effectiveness of assistance. Special terms on OCR loans in the social sectors, as anticipated in the PRS, were not finalized.⁴⁷

3. Organizational Capacity

70. ADB has attempted to realign its key organizational characteristics (i.e., skills mix, structure, process, and culture) with the PRS in several ways (Box 6). Despite these efforts, the review of reorganization and staff feedback show that there still remains a perceptible gap between ADB's mandate and its organizational capacity to deliver the PRS. The key reasons for this gap include:

Box 6: Aligning Organizational Characteristics with the Poverty Reduction Strategy

Strengthening Skill Mix

Asian Development Bank (ADB) created about 20 new positions for poverty and other thematic specialists since 2000. This has resulted in a total of above 60 positions for these specialists ADB-wide.

Several briefings on the Poverty Reduction Strategy (PRS) and training workshops on poverty issues have been organized to help reorient staff and improve their understanding of poverty-related issues.

Refining Structure and Processes

A Poverty Reduction Unit (PRU) was created in 1999 to guide PRS implementation, monitor progress, and promote awareness on poverty issues in ADB and developing member countries (DMCs). The PRU functions were assigned to a Poverty Reduction

and Social Development Division under the newly created Regional and Sustainable Development Department that was established as a result of the reorganization in 2002.

Promoting Poverty-Reduction-Oriented Culture

Poverty reduction was given a high profile through creation of the Presidential Commission on Poverty Reduction, regular management pronouncements on ADB's commitment to poverty reduction, several poverty forums.

Systematic monitoring by management of the 40% lending target and the progress in finalizing PPAs signaled that these indicators had become ADB's prime concern, and that behavior contributing to it would be rewarded.

- (i) The adoption of the PRS and its requirements—particularly poverty assessments, PPAs, and application of the new project classification system—created additional demands on staff. This further stretched already scarce human resources.⁴⁸ Sector specialists and country team leaders particularly feel this pressure.⁴⁹

⁴⁷ The proposal was discussed by the Board, but no agreement was reached.

⁴⁸ On a per-capita basis, ADB's professional staff averaged \$7.7 million per year in loan approvals over the last 3 years, compared to \$4.5 million-4.6 million for its peers.

⁴⁹ Demands on ADB operations have increased and diversified since the mid-1990s, due largely to (i) wider development objectives; (ii) improved quality standards (safeguards, etc.); (iii) rising needs for improved

- (ii) Despite the increase in poverty-reduction and thematic specialist positions, ADB's capacity to mainstream poverty issues into operations is still limited. There are currently one poverty reduction specialist and 1-2 specialists for each theme in each operations department.⁵⁰ The lone poverty reduction specialist is often tasked to work on three to four country poverty assessments and PPAs at a time, while helping operations staff with project designs as well.⁵¹
- (iii) Insufficient dissemination of the PRS and the approach to delivering it, as well as a lack of incentives for professional development in this area, have not fully equipped the staff to deliver the PRS.⁵² Staff feedback revealed that many thought the PRS simply meant a new project classification system and a 40% PI target. Some staff members were not even aware of the three pillars. New staff seemed to have received little guidance on delivering the PRS. While various poverty-related seminars and forums were organized since 2000, only three events were held specifically on the PRS and its new operational tools.⁵³
- (iv) The high profile given initially to poverty reduction receded over time. The Presidential Commission on Poverty Reduction ceased to function by mid-2000 as its tasks were subsumed under the regular Operations Review Meeting.
- (v) Following the reorganization, there was some confusion about responsibility for PRS implementation. RSDD did not assume all the responsibilities of the erstwhile Poverty Reduction Unit, creating a gap in monitoring and reporting of ADB's poverty reduction efforts.
- (vi) The excessive attention to achieving the 40% lending target for PIs generated frustration among staff. Staff members were often pressured to design a project to meet the PI criteria, regardless of its relevance to the overall objective of the project. This approach also reduced attention to the crosscutting issues and to knowledge products, as they do not usually result in loans.

F. Partnerships

71. ADB has further strengthened its partnership with civil society and international development agencies, at both the strategic and operational levels.

governance and institutional capacity building; (iv) expanded membership; and (v) growing demand for emergency and post-conflict operations. However, from 1995 to 1999, little to no staff increases were made, and until 1999, ADB responded to growing demands mainly through staff deployment.

⁵⁰ Analysis conducted on crosscutting and thematic specialists at ADB following the review of reorganization also shows these specialists are insufficient in number to meet the increasing demand to integrate thematic priorities into ADB operations.

⁵¹ Rapid assessment of the number of poverty reduction specialists and project approvals of World Bank's Asian operations (East and South Asia and the Pacific, excluding Central Asia) shows ADB's poverty reduction specialists averaged 5.9 projects per year in loan approvals, compared to 1.3 projects for World Bank Asia operations.

⁵² Apart from the two-day introductory seminar on the Poverty Reduction Strategy (PRS) held in the early 2000, no follow-up seminars on the PRS were organized.

⁵³ These include one 2.5-day seminar on poverty and economics (2003); one half-day seminar on incorporating poverty impact assessment in project economic analysis (2003); and one half-day seminar on assessment of poverty impacts of projects (2001).

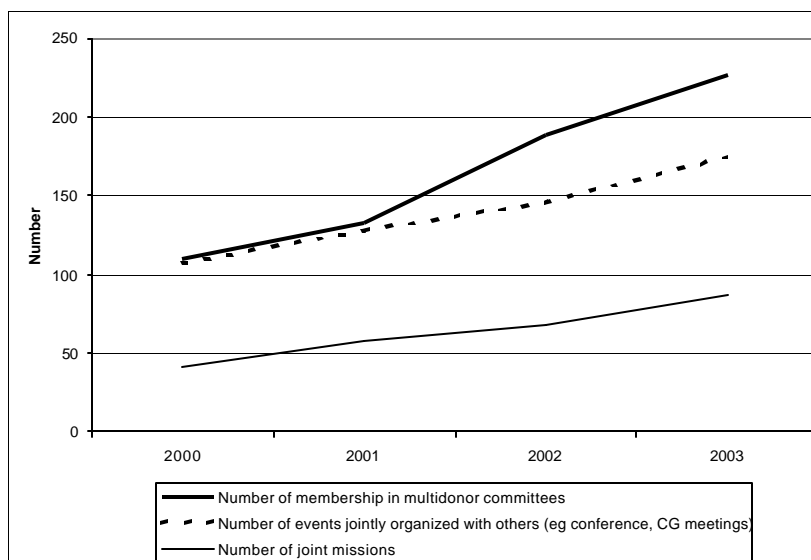
72. The establishment of the NGO Center in 2001 has greatly facilitated ADB's coordination and collaboration with NGOs. This is reflected in the markedly higher participation of NGOs in project preparation now than there was in the mid-1990s. NGOs have also been closely involved in preparing ADB policies, particularly in water, energy, environment, and social protection. NGOs were also directly involved in formulating ADB's new framework for ADB-Government-NGO cooperation for the period 2003-2005.⁵⁴

73. Cooperation with other development partners, including bilateral and multilateral development agencies, has also significantly improved (Box 7).⁵⁵ ADB has formalized its relationships with international development agencies by signing memoranda of understanding with European Bank for Reconstruction and Development (EBRD), ILO, Multilateral Investment Guarantee Agency (MIGA), UNDP, the World Bank (WB), WHO and WTO.

74. Two factors that have catalyzed stronger partnerships are (i) expansion of and devolution of responsibilities to resident missions (RMs) that has permitted greater collaboration at the country level;⁵⁶ and (ii) establishment of grant funds from several bilateral donors, including Canada, Denmark, Japan,

Box 7: Working Together

Asian Development Bank's (ADB) collaborative work with other international development agencies has significantly expanded in the last 4 years. ADB is increasingly involved in joint country-level assessments, participating in multi-donor committees, and organizing events with other partners and joint missions.



ADB's strengthened partnerships with other international agencies are further confirmed by the findings of a survey of international agencies conducted for this review. The results show that more than 80% of international agencies perceive ADB to be a better and more involved partner now compared to 3 years ago. According to these agencies, ADB increasingly involves other partners in its country programming, sector and other analytical work, and in project processing. In particular, ADB has worked closely with other international agencies, such as the World Bank and UNDP, on poverty analyses, preparation of national poverty reduction strategies, and on setting up poverty databases and monitoring systems. ADB has conducted joint country programming and portfolio reviews with WB, Japan Bank for International Cooperation, and UNDP, and has also supported the harmonization of processes with other development agencies. ADB has increased its efforts to mobilize cofinancing for its projects from other partners.

⁵⁴ ADB 2003. ADB-Government-NGO Cooperation: A Framework for Action, 2003-2005. Manila.

⁵⁵ Questionnaires were sent to country offices of 6 bilateral and 2 multilateral organizations in countries where ADB has been operating for at least 3 years and has a resident mission. The questionnaire sought their views about changes in ADB efforts to collaboratively work with its partners in the last 3 years. Respondents had to rank ADB's efforts on a scale of 1 to 4 and were provided the opportunity to keep their responses confidential. A total of 67 country offices of partner agencies in 15 countries responded.

⁵⁶ Strengthening of the resident missions was approved in 2000. See ADB. 2000. *Resident Mission Policy*. Manila.

the Netherlands, Norway, Sweden, and the United Kingdom. The establishment of these funds has facilitated closer collaboration with NGOs and bilateral development agencies. In addition, pressure on core TA and ADF resources compelled staff to explore more actively cofinancing opportunities and collaboration with development partners.

G. Overall Assessment of Implementation

75. The analyses of the PRS implementation, supported by extensive consultations with DMC governments, NGOs, and ADB staff (Box 8), point to the following conclusions.

76. On the positive side, ADB's operations have become more poverty-oriented. Awareness among ADB staff of poverty reduction as an operational concept has increased. ADB has reoriented its operational policies and strategies toward PRS priorities, and strengthened its partnerships with other development agencies in support of NPRSs. To some extent, country-level operations and overall lending and nonlending operations have been realigned with the PRS. Organizational structure and capabilities to support the PRS have been increased.

77. Several weaknesses in PRS implementation have also been identified. To remove these, ADB needs to:

- (i) develop and apply consistently a practical conceptual and methodological framework for PAs. This may require a review of the *Handbook on Poverty and Social Analysis*.⁵⁷
- (ii) sharpen its country focus and align ADB assistance around country-led NPRSs. This implies a concerted effort at ensuring that CSPs are based on high-quality analytical work and making CSPs more results-oriented by including a logical framework that enables regular monitoring and evaluation for better development results.
- (iii) establish an ADB-wide monitoring and evaluation system that better captures ADB's contribution to poverty reduction.
- (iv) respond to the stagnant ADB assistance for social development, especially in the context of the region's relatively poor record in reducing non-income poverty.
- (v) continue reinforcing its financial capabilities and organizational capacity.

Addressing these weaknesses is critical to enhance ADB's operational effectiveness and better manage delivery of the PRS.

⁵⁷ ADB. 2001. *Handbook on Poverty and Social Analysis*. Manila.

Box 8: Stakeholder Perspectives on the Poverty Reduction Strategy

Developing Member Country Governments

The main messages received during the in-country consultations in six developing member countries (DMCs) and a workshop of DMC government officials are summarized below:

- **Framework.** The pillars provide a good overall framework for poverty reduction strategies if interpreted in the relevant cultural context for each country. Capacity development may be considered a crosscutting priority, given its key function of knowledge sharing.
- **External context.** The conditions under which trade takes place are very important for determining opportunities for an economy to grow. How technology can be developed, acquired, and disseminated is also important. The Asian Development Bank (ADB) may provide indirect assistance in this area through information and advice.
- **Partnering.** Governments must take the lead in partnerships by establishing a limited set of agreed targets for country monitoring, and by matching operations to domestic capacities. Partnerships are best organized around budget preparation.
- **Priorities.** Country programs should emphasize infrastructure development at national and local levels, microfinance, private sector development, and participation. The balance between targeted and nontargeted interventions, and ADB's support for each, should be determined on a country basis.
- **Financial resources.** ADB needs to expand its financial resources for supporting country programs and poverty reduction, and maintain constant review of its lending terms.
- **Monitoring the PRS.** An annual meeting of DMC country representatives would provide a useful mechanism for monitoring PRS implementation. Monitoring of poverty impact at the project level is neither efficient nor cost-effective, and suffers from lack of capacity.

Nongovernment Organizations

Meetings with representatives of about 80 nongovernment organizations (NGOs) during the DMC consultations in the People's Republic of China, India, Kyrgyz Republic, Papua New Guinea, Sri Lanka, and Viet Nam provided the following feedback.

- **NGO perceptions about ADB.** Most NGOs recognize the increasing role of ADB in supporting poverty reduction in recent years. ADB's involvement in poverty related analyses and studies and policy dialogue has perceptibly increased.

- **ADB as a partner.** Involvement of nongovernment organizations (NGOs) in ADB activities has increased in the last 4 years, both at the policy and the project levels. Several NGOs were closely involved in developing country strategies and programs (CSPs), especially in undertaking participatory poverty analyses. ADB has consulted with NGOs on draft CSPs and several recent policy papers.
- **Expectations from ADB.** ADB should play a greater role in advocacy with governments, and capacity building of NGOs. Many stressed the need for direct ADB financing of NGOs for implementing projects.

ADB Staff

Staff views and concerns on the Poverty Reduction Strategy (PRS), received during staff feedback sessions involving about 150 staff, are as follows. All levels of operational staff, including Directors and Directors General, expressed similar views.

- **Awareness.** ADB staff members are now more aware of and sensitive to poverty reduction as an operational concept following the adoption of the PRS.
- **Lending targets and project classification.** The 40% target for poverty intervention projects and the project classification system are flawed and costly. They encourage unnecessary additions and detract attention from project quality.
- **DMC priorities.** In many cases, the 40% lending target makes it difficult to align ADB's operational focus with the priorities of DMCs; most governments want ADB assistance for economic growth and infrastructure.
- **Country focus.** ADB's strategy for poverty reduction should be country based with CSPs as the key tool for planning and monitoring ADB's contribution to poverty reduction.
- **ADB's strength.** ADB should improve what it can do well (i.e., infrastructure, economic growth, and efficient processing) to contribute to poverty reduction.
- **Organizational constraints.** ADB needs to improve its culture, structure, business processes, and skills mix to more effectively deliver its poverty reduction agenda.
- **Incentives.** Staff incentives have not really changed to support poverty reduction. Speed of processing and the size of projects continue to be valued rather than poverty reduction efforts. No incentives exist for staff's professional development. Heavy workload prevents most project staff from benefiting from skills training under the current resource constraints.

IV. ENHANCING THE PRS AND ITS IMPLEMENTATION

78. This chapter builds on the preceding assessment of the PRS framework and its implementation to provide specific recommendations for enhancing PRS delivery.

A. Strategic Framework and ADB Priorities

79. As noted in Chapter II, the regional experience confirms that the three pillars constitute a robust framework for reducing poverty, and for directly addressing a majority of MDGs (paras. 15-19). The three pillars will continue to constitute the strategic framework of the PRS. They have provided, and will continue to provide, the basis for strengthening the poverty focus of CSPs. The three pillars will be one of the components of the enhanced monitoring system for the PRS (paras. 95-102).

80. The crosscutting priorities established in the PRS (and modified in the LTSF) remain key areas for achieving the objectives of the PRS and the MDGs. However, some changes are needed in light of the experience gained. The term “crosscutting” needs revision to avoid the impression that these priorities have to be pursued in all operations.⁵⁸ These priorities will be referred to as “thematic” priorities, and include gender equality, environmental sustainability, private sector development, regional cooperation, and capacity development. The relevance of each to PRS implementation is discussed below:

- (i) **Gender.** As the PRS states, “improving the status of women is critical to any strategy to reduce poverty in the region.” Gender is also a prominent theme in MDGs 3 and 5. Hence, gender will be reinstated as a thematic priority,⁵⁹ and pursued in accordance with the 1998 policy on gender and development.⁶⁰
- (ii) **Regional cooperation.** Regional cooperation can play a critical role in promoting economic growth, providing regional public goods, and addressing security concerns. Given ADB’s strong comparative advantage in providing this support, regional cooperation is an important thematic priority for ADB.
- (iii) **Capacity development.**⁶¹ Successful poverty reduction would depend largely on a country’s ability to effectively manage development processes. This calls for continuous development of knowledge and skills of institutions and individuals—including the poor—in DMCs. ADB recognizes the importance of capacity development, and provides extensive support for it.⁶² Considering the growing demand and its critical role in poverty reduction (para. 18), capacity development will be added as a new thematic priority.

⁵⁸ Regional cooperation, for example, may not be integrated into all operations, as it requires a specific context.

⁵⁹ Gender was dropped as a priority in Long-Term Strategic Framework because it was to be mainstreamed through the social development pillar.

⁶⁰ ADB. 1998. Policy on Gender and Development. Manila.

⁶¹ ADB initially defined “capacity building (development)” as “an amalgam of programs and projects whose objective is to strengthen the institutional environment of a sector and/or country for more efficient, effective, equitable, and sustainable management of the development process” (ADB Staff Instructions, 1995). Based on the experience in supporting capacity building, ADB will be updating this definition and formulating a strategy to enhance the effectiveness of its capacity development interventions.

⁶² ADB provided 302 technical assistance grants for \$167 million in 2001-2002 for capacity building. A large proportion of ADB loan projects include a focus on capacity building.

- (iv) **Environmental sustainability.** Considering the importance of the environment in sustaining economic growth and its impact on the poor and their livelihoods, it remains a thematic priority for ADB. The environment policy of 2002 will guide ADB's interventions for environmental sustainability, a key element for achieving MDG 7.
- (v) **Private sector development (PSD).** As stated in ADB's PSD strategy of 2000, "[d]evelopment of a strong and dynamic private sector is crucial to long-term, rapid economic growth, a necessary condition for poverty reduction." ADB will continue to promote PSD by helping DMCs create an enabling environment for private sector participation in development. ADB's private sector operations will help stimulate economic growth by providing comfort to and catalyzing private sector investment through projects and investment funds.

B. Project Typology

81. The PRS acknowledges that market and institutional failures⁶³ and imperfections often constrain poor peoples' access to factor and product markets, their control over resources, and their access to services and transfers. The PRS, therefore, introduced PIs to overcome these impediments. However, the PRS defined PIs narrowly by including only individual/household-based interventions. It did not include other types of targeting, such as those based on geographical and sectoral/subsectoral attributes. Furthermore, the definition was confined to income-based poverty. The term "PI" also implies that nontargeted projects have less impact on poverty.

82. To rectify the shortcomings noted above, ADB will modify the classification system by appropriately (i) expanding the definition of PIs, and (ii) changing the terminology from PI to targeted intervention (TI). To capture the full range of targeted interventions, the term "TI" will include interventions targeted on the following attributes:

- (i) **Individual/Household.** The existing definition will continue to apply. In addition to traditional individual targeting based on poverty, targeting by other characteristics will also be considered under this category.⁶⁴ Projects that primarily benefit population subgroups with a greater poverty incidence than the national average—such as ethnic minorities or women—will be classified as TI.
- (ii) **Geographical.** Projects located in geographical areas with a higher poverty incidence than the national average will automatically qualify for TI classification, irrespective of whether their impact on poverty is direct or indirect. This assumes

⁶³ Market and institutional failures that impede factor mobility and access to product market cause stagnation, even decline, in the welfare of poor households living in poor areas, despite overall growth in a country. In this situation—referred to as the "geographical poverty trap"—targeted interventions are required to ensure a level playing field for people in disadvantaged areas. Low levels of human capital, for example, can limit access to the opportunities and benefits generated by growth because of limited availability of services. This can lead to a "human capital poverty trap," in which poor households find it difficult to escape poverty due to their low levels of human capital, while at the same time lacking the ability or motivation to invest more in improving their human capital. Again, this situation calls for interventions that directly address the lack of access to markets and public services so that the poor can effectively participate in the development process.

⁶⁴ The literature points to a strong link between poverty and certain demographic characteristics, such as sex, ethnicity, and place of residence. Durlauf, S. 2001. The Membership Theory of Poverty: The Role of Group Affiliations in Determining Socioeconomic Outcomes. *Understanding Poverty*, S. Danziger and R. Haveman (eds.).

that geographical disparities imply a relative lack of opportunities for economic activities and adverse marginal returns to factors of production. Any activity that helps increase resources and policy attention for disadvantaged areas tends to rectify this imbalance.

- (iii) **Sectoral/Subsectoral.** Projects with a direct impact on the non-income dimensions of poverty as represented in MDGs 2 to 6 will automatically qualify as TIs. This should provide an institutional incentive for accelerating progress on non-income dimensions of poverty by increasing ADB's involvement in sectors directly related to the MDGs.

83. ADB will continue to track TIs to assess whether CSPs are responding to country-specific constraints to poverty reduction.

C. Prioritization of Interventions

84. The PRS stipulates that, based on a poverty analysis, the CSPs “will favor those [interventions] that promise the biggest return in terms of poverty reduction.” This implicitly assumes that it is possible to rank different investment options according to their poverty impact. The PRS also specifies criteria for prioritizing ADB investments at the country level based on the following two elements: a lending volume target for PIs, and preference to lending to some sectors/subsectors. While these were intended to provide general guidelines for operations, in practice they were interpreted quite rigidly. Experience has shown that it is difficult to quantify and prioritize ex-ante the poverty impact of individual interventions.

1. Lending Target for Poverty Interventions

85. The PRS set a specific target of 40% for lending in support of PIs. However, it did not provide a rationale for specifying the level of 40%. While this target had some positive effects on reorienting ADB operations, it led to both conceptual and operational problems.

86. Conceptually, the specification of an ADB-wide lending target is inconsistent with the concept of individual country focus. Poverty reduction strategies based on thorough poverty analyses may include both targeted and nontargeted interventions, based on actual country needs. However, fixing an ADB-wide target and thereby ex ante deciding the mix of targeted and nontargeted interventions, prejudices individual country assessments and can result in less-than-optimal outcomes.⁶⁵ Literature on poverty points to the risk of such an approach diverting attention from removing the binding constraints⁶⁶ to poverty reduction in favor of providing short-term benefits to the poor. The target also overemphasizes the importance of inputs rather than development results.

⁶⁵ An emphasis on such targeted interventions may be justified in countries with clearly identified residual pockets of poverty and strong implementation capacity. However, in countries with widespread poverty and poor implementation capacity, interventions that target binding constraints to poverty reduction and promote overall growth are likely to be more effective. In such countries, targeting resources toward certain geographical areas or sectors rather than households may be the most effective way of reducing poverty.

⁶⁶ Binding constraints refer to key market and institutional failures caused by sector-specific or systemic policy, as well as institution and investment barriers that limit poverty reduction effects. Lack of effective policies, institutions, and investments—individually or collectively—can work to exclude groups and regions from accessing markets, employment, assets, and public services that can help to realize the poverty reducing benefits from economic growth. For further discussion, see Bolt R. and C. Edmonds. 2003. *Operational Considerations for a Pro-poor Growth Strategy*. ADB. Manila (Draft).

87. Operationally, the lending target gives the message that household-targeted projects are superior to nontargeted interventions in reducing poverty. Staff feedback confirmed that the lending target created an incentive to pursue household-targeted projects at the cost of projects with an indirect but potentially larger impact on poverty reduction. The lending target provides incentives to include targeted components, at times at the cost of efficiency. The emphasis on household-targeted projects has increased transactions costs for both ADB and DMCs. Household-targeted interventions are more complex to analyze, design, and implement. Feedback from DMCs also confirms that the emphasis on household-targeted interventions has increased the cost of preparing and implementing projects.

2. Priority Sectors and Subsectors

88. There are two difficulties with the sector and subsector priorities given in the PRS. First, they do not fully acknowledge the different levels of development across DMCs. Causes of poverty and constraints on reducing poverty differ across countries. This makes it difficult to have a standard set of priority subsectors for the region as a whole. ADB's involvement in subsectors should be prioritized through the CSPs and discussed in country-specific sector strategies that make use of more general lessons drawn from ADB's sector policies and strategy papers.

89. Second, prescription of priority sectors and subsectors tends to narrow the focus of the PRS to isolated interventions rather than addressing the binding constraints to poverty reduction. A better strategy for encouraging pro-poor action is to take a comprehensive view of an entire sector. For example, the network nature of economic infrastructure requires simultaneous support for the entire system, including national highways, railways, and ports in the transport sector and power plants and transmission lines in the energy sector. Effective functioning of these systems is a prerequisite for investments to reach remote or underserved populations.

3. Revised Approach to Prioritization

90. Based on the foregoing, the review concludes that there should be no numerical lending targets for specific types of interventions.⁶⁷ The scope and content of ADB support for poverty reduction would be determined based on country-specific analyses of poverty situations and needs,⁶⁸ ADB's own capacity, and programs from development partners. Assessments of particular constraints and opportunities in individual countries would provide the basis for designing the most effective country strategy for poverty reduction.

91. This approach would be in line with the new development architecture, which emphasizes enhancing aid effectiveness through establishing linkages between "inputs" and "outputs" and "impacts," and managing for results at all levels (para. 100). The focus of ADB operations would now change from pursuing a numerical lending target related to "inputs" to

⁶⁷ Analysis of ADB's future program shows that targeted interventions as defined above will continue to constitute the majority of lending operations.

⁶⁸ For example, if poverty in a country stems from lack of opportunities for economic activity, an emphasis may be given to pro-poor economic growth through projects with indirect impact on poverty. On the other hand, if there is evidence of a "geographical poverty trap," support for geographically targeted projects might be the best strategy. Similarly, if poverty arises largely from the inability of poor households to benefit from existing opportunities, with evidence of a "human capital poverty trap," ADB-supported programs might focus on targeted human capital-related interventions.

improving development effectiveness and impact on the ground.⁶⁹ The relevance and poverty focus of ADB operations would be ensured through strengthening the mechanisms for quality assurance, monitoring, and evaluation.

D. Approach to Country Strategies

92. The PRS recognizes that the primary responsibility for poverty reduction lies with countries themselves. The preparation of a country-led and country-owned NPRS is central to this concept. Accordingly, the operational processes introduced by the PRS complement the country's preparation of an NPRS. ADB will continue to seek greater development effectiveness through actively supporting the NPRS processes, aligning its assistance with NPRSs, and enhancing its cooperation with development partners. For ADF countries, implementation of CSPs will continue to reflect the results of the Performance Based Allocation (PBA) process of ADB.

93. Given the centrality of CSPs in determining ADB's country assistance, it will be critical to achieve a high standard of analytical rigor in preparing CSPs, and to ensure their effective implementation. An analysis of the new CSPs approved to date shows that this standard has not yet been consistently achieved. To ensure efficacy of its country operations, ADB will strengthen its quality assurance mechanism for CSPs and country analytical work. As an initial step, new CSPs will have a logical framework, showing clear linkages between the issues identified in poverty and thematic assessments, the proposed program, and expected outcomes. CSPUs will update the progress with achieving the results defined in the CSPs.

94. When the PRS was adopted, the introduction of PPAs was a bold and innovative approach to formalizing bilateral agreements on country-specific and country-owned measurable targets. To date, 24 PPAs have been concluded and provided an effective framework for guiding operations. However, with the advent of the NPRS/PRSP concept since 2000, the role of PPAs has receded. Accordingly, it is proposed that ADB will no longer conclude PPAs when the DMC concerned adopts its own NPRS. In future, the goals and medium-term targets contained in the NPRSs would be reflected in CSPs, and the progress reported through CSPUs. For DMCs where PPAs exist, any updates and monitoring would take place through CSPs and CSPUs.

E. Monitoring and Evaluation

95. ADB requires a more comprehensive, results-oriented monitoring and evaluation system to continuously improve the quality of its country operations and better manage its resources for poverty reduction. A framework needs to be established to enable monitoring, evaluating, reporting, and managing of PRS-related efforts (inputs and activities), outputs, outcomes, and impact. The basic elements of such a framework are presented below.

⁶⁹ This would bring ADB in line with the practice of other multilateral development banks.

1. Monitoring at the Institutional Level

96. The PRS monitoring framework at the institutional level will be at the core of ADB-wide Management for Development Results (MFR) initiative.⁷⁰ The basic elements are discussed below.

- (i) The *desired impact* of the PRS on poverty reduction at the Asia-Pacific regional level will be measured through achievements on MDGs 1-7 (11 targets and 31 indicators), recognizing that results cannot be solely attributed to ADB efforts. Nonetheless, it is important to monitor trends in these indicators to ensure effective alignment of ADB efforts with the targets. Following the international agreements⁷¹ on monitoring of MDGs, the UN system will monitor these indicators. ADB will complement this process and coordinate with its development partners at the regional level, and present progress in its annual report on key indicators. ADB will also review its contribution through assessments that examine the causal chain from projects to outcomes to impacts.
- (ii) The *expected outcomes* of PRS implementation refer to the aggregate achievement of the CSP objectives. Aggregating these outcomes will be challenging, given the varying country conditions and objectives of individual CSPs. Overall assessment of achievements of completed CSPs will be prepared based on CSP completion reports and independent evaluation. A possible list of outcome indicators is given in Appendix 9.
- (iii) The *proposed output* of PRS implementation refers to the extent ADB operations are aligned with the key components of the PRS. This will include tracking of ADB operations by PRS pillars, thematic priorities, and type of intervention. It will also track the quality of poverty assessments and CSPs, ADB's contribution to poverty-reduction-related knowledge in the region, and changes in ADB's relationships with other development partners. A list of suggested indicators is in Appendix 9.
- (iv) The *proposed efforts* encompass the financial (administrative budget, grants, and loans) and personnel resources dedicated to delivering the PRS. They also include actions to strengthen ADB's institutional capacity to implement the PRS through skills development and systems enhancement, and other poverty-related activities undertaken at the country and regional level.

An annual plan of action specifying a list of proposed PRS-related activities for the following year, as well as monitoring and evaluation responsibilities for that same period, will be prepared in the last quarter of every year by a unit within RSDD.

⁷⁰ In 2003, ADB established a working group to review, among other things, results-based management at ADB and its implications. In 2004, a formal results management unit was established to spearhead ADB's further efforts to better manage for development results. ADB is building on lessons learned from other agencies, as well as the substantial body of work on results based management to craft the conceptual framework for moving forward.

⁷¹ Consensus reached at International Conference on Financing for Development in Monterrey, Mexico on 18-22 March 2002.

97. **Responsibility.** The Poverty Committee will be responsible for monitoring, evaluating, and reporting on the implementation of the PRS. RSDD will provide a secretariat for the Committee. RSDD will also monitor and report the *desired impact* of the PRS and MDG 8 in close coordination with WB and UN.

98. **Reporting.** ADB will resume preparing annual progress reports on PRS implementation. The Poverty Committee will prepare the report and submit it to management. The report will summarize progress in implementing the annual plan of action and trends in output- and outcome-related indicators.

99. **Evaluation.** Results will be continuously assessed through self-evaluation (midterm reviews and completion reporting) and independent evaluation. Indicators will be developed to assess the quality of CSPs, progress, and completion. Results of CSPs will be assessed through self-evaluation by operations departments and, subsequently, by independent evaluations. Individual lending and nonlending operations will be subject to project quality at entry—including evaluability—reviews, as well as self and independent evaluations.

2. Monitoring at the Country, Sector and Project Levels

100. **Country Level.** PRS monitoring and evaluation at the country level will be integrated into an ADB-wide MFR framework.⁷² All new CSPs will include a logical framework (including a monitoring framework), showing clear linkages between the constraints to poverty reduction identified in poverty assessments, the proposed program, and desired outputs and expected outcomes.⁷³ Country-level outcomes will be monitored in terms of the three pillars and thematic priorities. CSPUs will update the progress on the targets established in the logical framework. A toolkit on approaches to country-level monitoring will be developed under the MFR initiative.

101. **Sector Level.** Sector committees will monitor, evaluate, and report on the progress of PRS implementation in sector operations. Sector committees will prepare annual reports summarizing how ADB operations in the sector contributed to poverty reduction during the year and outlining plans for the following year.

102. **Project Level.** ADB will strengthen its project performance management system to ensure that the contributions of individual projects to outcomes specified in CSPs are clearly established.⁷⁴ Toward this end, a logical framework of each project will continue to specify its contribution to sector outcomes at the level of pillars and thematic priorities (Appendix 10).⁷⁵ Evaluation of projects through self-assessment (project completion reports) and independent evaluation (project performance audit reports on a sample basis) will continue.

⁷² This will incorporate country outcome indicators (comprising a combination of national poverty reduction strategies, the Millennium Development Goals, and ADB-specific indicators) as part of the measurement, monitoring, evaluation, and managing of country strategies and programs/country strategy and program updates.

⁷³ A similar format will be used to evaluate the subregional cooperation strategy and programs.

⁷⁴ See ADB. 2003. Special Evaluation Study on Project Performance Management System.

⁷⁵ Due to the considerable cost and problems in establishing clear linkage between project inputs and impact, monitoring of poverty effects at the project level will be done on a sample basis.

F. ADB's Capabilities to Deliver the PRS

1. Financial Capabilities

103. ADB's ability to implement the PRS depends on continued availability of financial, in particular concessional, resources. High quality analytical work and sustained support for capacity development are crucially dependent on adequate, and effectively used, grant resources. Similarly, support in those countries that are at greatest risk of not achieving the MDGs (typically smaller, low-income DMCs) will require adequate ADF resources (para. 65).⁷⁶

104. ADB needs to consider widening the range of available modalities and instruments to better tailor its assistance to the complex needs of poverty reduction. Variants of many of these instruments are already being used but need to be formalized for wider application.⁷⁷ ADB will be exploring ways to augment resources for regional cooperation.

2. Organizational Capacity

105. ADB will continue strengthening its organizational capacity to effectively pursue poverty reduction in its DMCs. More accurate estimations of staff resources and skill mix requirements will be made in the context of the new human resources strategy. This will guide the process of staff deployment and allocation of additional staff positions. Management will give greater attention to strengthening the pool of operational staff members—particularly sector and country specialists—that are at the forefront of delivering the PRS. ADB will also ensure the effective use of thematic, including poverty reduction, specialists.

106. To effectively implement any operational strategy, the PRS must be well understood throughout the organization. ADB will continue to build the knowledge base required for implementing it through well-focused skills training and mentoring programs. Such programs can succeed only if adequate staff incentives are in place for professional development. ADB's new human resources strategy will incorporate these elements.

107. ADB will continue refining its organizational structure and processes to ensure effective delivery of its poverty agenda. Steps are already being taken to address the issues identified in the review of the reorganization. Process-related issues have been examined as part of the ongoing review of the new business processes, and revised instructions are being issued.

108. RSDD will be responsible for guiding and promoting PRS implementation ADB-wide. It will (i) support the Poverty Committee in monitoring and reporting the progress of PRS implementation; (ii) help achieve quality of key ADB products from a poverty angle; (iii) guide operations departments on operationalizing the PRS; (iv) assist in developing knowledge products and services programs related to poverty reduction; and (v) organize awareness-raising activities and outreach programs. RSDD will also establish an appropriate mechanism for effective coordination with operations departments, including RMs and ERD.

⁷⁶The gap between funding levels in Asia and the Pacific of the International Development Association (IDA) and the Asian Development Fund (ADF) has significantly increased in the last 3 years. ADF terms have also become harder than those of IDA.

⁷⁷Some of these could include (i) sector wide approach (SWAps) in country programs to more effectively partner with other agencies for achieving sector goals; (ii) slow-disbursing policy loans in support of national poverty reduction strategies (NPRSs) to facilitate long-term support to NPRS implementation; (iii) an adaptable program loan to allow greater flexibility in supporting policy reforms and institutional development; and (iv) greater use of pilot loans to test innovative approaches to poverty reduction.

109. Poverty-reduction specialists assigned to operations departments will continue to assist in operationalizing the PRS in each department. They will be tasked to monitor and analyze poverty issues at the macro level, to ensure high-quality poverty assessments and CSPs with clearly defined linkages to poverty assessments, and to provide guidance on integrating poverty issues in project/program designs and implementation.

110. To sharpen country focus in its poverty work, ADB will enhance RMs' capacity to monitor and report on country poverty situations and assist in integrating poverty issues in ADB operations. RMs will be further encouraged to forge partnerships with other development partners, including bilateral agencies and NGOs, to complement their own capacity for poverty assessment and analyses.

G. Risks and Assumptions

111. The successful implementation of the enhanced PRS is subject to both external and internal risks. The main external risks stem from economic uncertainty and political instability (paras. 21-22). The region's continued resilience against economic shocks depends on prompt and coordinated implementation of policy and institutional reforms by governments in the region. Political stability is a key precondition for poverty reduction, and its absence can rapidly undo earlier gains. ADB will continue monitoring the changes in the global environment, evaluating their possible impact on the regional economies, and supporting its DMCs in mitigating the risks.

112. An effective global partnership for development is essential for any poverty reduction strategies to succeed (paras. 27-28). However, slow progress so far in meeting MDG 8 presents a serious risk for PRS implementation. As a multilateral organization, ADB must give greater support to advancing MDG 8.

113. The enhanced PRS is ambitious and demanding. Its successful implementation assumes that ADB is adequately equipped, both financially and organizationally (paras. 103-110). Availability of sufficient concessional resources remains critical. Continued shortage of ADF would seriously affect PRS implementation. Similarly, failure to develop a wider range of financial modalities and instruments would hinder ADB's ability to respond to the varying poverty reduction needs of its DMCs. ADB needs adequate organizational capacity to succeed in this task. ADB must act quickly to remove structural, procedural, and, in particular, human resource constraints.

V. RECOMMENDATIONS

114. The review has highlighted several measures required to ensure the effective delivery of the PRS. It is proposed that the PRS be modified to reflect the changes discussed in Chapter IV. In particular, management will take necessary actions to ensure that

- (i) ADB will intensify policy dialogue with DMCs and development partners to identify what forms of additional assistance are required to meet the MDGs, especially those linked to social development (paras. 11-13 and 46-47).
- (ii) CSPs are based on high-quality analytical work, and will henceforth include a logical framework linking the proposed program, desired outputs, expected outcomes, and the MDGs. The progress in achieving the targets at output and outcome levels will be reported in subsequent CSPUs (para. 93).

- (iii) ADB will continue strengthening its capacity to deliver the PRS by (a) appropriately upgrading its staff resources and skill mix; (b) intensifying dissemination of the PRS through improved training and mentoring; and (c) clarifying the institutional responsibilities within ADB for guiding and monitoring PRS implementation (paras. 105-110). ADB will more actively explore the possibility of expanding the range of financial modalities and instruments to better respond to the needs of its DMCs.
- (iv) ADB will establish a more results-oriented monitoring and evaluation system, grounded in the principle of country focus, to enable effective management of the PRS (paras. 95-102). This system will also be used to track the progress of ADB's operations in terms of the PRS framework (pillars, thematic priorities, sectors, and targeted interventions).

115. The Board's guidance is sought on the following proposals:

- (i) Considering the critical role of effective public policy in facilitating and sustaining rapid inclusive economic growth, capacity development will be added to the list of thematic priorities (para. 80). Henceforth, the PRS framework will comprise the three pillars (pro-poor sustainable growth, social development, and governance) and five thematic priorities (private sector development, gender, environment, regional cooperation, and capacity development).
- (ii) ADB will enhance country focus in operations by further aligning its assistance with NPRSs to achieve the MDGs. ADB henceforth will not enter into a PPA with a DMC government that adopts its own NPRS (para. 94). The agreed goals and medium-term targets contained in PPAs that have been signed will be integrated into new CSPs. The progress on these targets will be reported through CSPUs.
- (iii) The PRS will not contain any institutional-level lending target or prescription of specific sectors/subsectors.

SYNOPSIS OF THE POVERTY REDUCTION STRATEGY¹

A. Conceptual Framework

1. The vision of the Asian Development Bank (ADB) expressed in the Poverty Reduction Strategy (PRS) is “an Asian and Pacific region free of poverty.” ADB’s PRS adopts a broad view of poverty by emphasizing that tackling poverty requires a broader focus than income poverty. The PRS recognizes that while the primary responsibility for poverty reduction lies with the developing member countries (DMCs) themselves, strong and sustained support from the international community is essential given the magnitude of poverty in the Asia-Pacific region.

2. Based on the experience of Asia and the Pacific in tackling poverty reduction, the framework of the PRS, and the Long-Term Strategic Framework (LTSF) that followed, is built around three pillars—*pro-poor sustainable economic growth, social development, and good governance*. The PRS specifies that the three pillars are mutually reinforcing. Sustained pursuit of policies and programs that strengthen these pillars will reduce poverty.

3. In addition, four crosscutting concerns—good governance, private sector development, gender, and environmental sustainability—are an integral part of the PRS.² The PRS does not give different weights to the three pillars and leaves the prioritization to country needs. This allows unbundling of the strategy according to country-specific needs through new country strategy and program (CSP) processes.

B. Implementation Framework

4. The PRS outlines the processes and priorities needed in translating the conceptual framework into a comprehensive implementation strategy. At the level of individual DMCs, the PRS requires that, as a first step, a comprehensive poverty analysis be undertaken in each country. At the next stage, a government-led, high-level forum discusses the findings of the poverty analysis along with civil society, the private sector, ADB, and other development partners. The forum would result in a common understanding on the poverty reduction targets and strategic priorities for achieving them, providing the basis for developing a NPRS. The forum then informs ADB’s CSP, which stipulates the strategic focus and a 3-year operational program. To formalize a long-term partnership with common understanding on poverty reduction goals, ADB and the government conclude a poverty partnership agreement (PPA). The PPA sets out the long-term vision and agreed targets for poverty reduction over a 5-10 year horizon.

5. The PRS also mandates that all ADB loans and technical assistance (TA) grants must contribute to poverty reduction, either by accelerating pro-poor growth or by focusing on poverty directly. Poverty intervention (PI) projects are defined as ones where the proportion of poor people among project beneficiaries are higher than their proportion in the overall population of the country, and in no case less than 20%. The PRS stipulates, “ADB’s desired lending mix will

¹ A full document is available at <http://www.adb.org>.

² Good governance is both a pillar and a crosscutting priority in the Poverty Reduction Strategy (PRS). The four crosscutting priorities of the PRS were replaced with the following three in the Long-Term Strategic Framework (LTSF): private sector development, environmental sustainability, and regional cooperation. Gender was considered to be mainstreamed under the inclusive social development pillar. ADB. 2001. *Moving the Poverty Agenda Framework in Asia and Pacific: the Long-Term Strategy Framework of the ADB (2001–2015)*. This review takes the view that the three pillars are complemented by four crosscutting priorities (private sector development, environmental sustainability, gender and development, and regional cooperation), contained in the PRS or LTSF.

include not less than 40% of all public sector lending for PI".³ The PRS, however, notes that the target of 40% is based on the assumption that an adequate level of concessionary resources is available to ADB.

6. The PRS identifies a series of supportive institutional changes. These include retooling through staff recruitment and reallocation, developing statistical databases, and establishing a poverty reduction unit to promote and monitor the strategy. The PRS also recommends strengthening partnerships, principally through cooperation in country poverty analyses and cofinancing.

³ This was a fundamental shift. Before the Poverty Reduction Strategy was adopted, ADB had committed that at least 50% of all its projects and 40% of lending volumes be allocated for projects with goals *other than pure economic growth*. These projects were classified according to *primary* and *secondary* goals of human development, poverty reduction, gender, and environment.

MILLENNIUM DEVELOPMENT GOALS AND TARGETS

Goal 1: Eradicate extreme poverty and hunger

- Target 1: Halve, between 1990 and 2015, the proportion of people whose income is less than \$1 a day
 Target 2: Halve, between 1990 and 2015, the proportion of people who suffer from hunger

Goal 2: Achieve universal primary education

- Target 3: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling

Goal 3: Promote gender equality and empower women

- Target 4: Eliminate gender disparity in primary and secondary education, preferably by 2005; in all levels of education, no later than 2015

Goal 4: Reduce child mortality

- Target 5: Reduce by two-thirds, between 1990 and 2015, the under-5 mortality rate

Goal 5: Improve maternal health

- Target 6: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio

Goal 6: Combat HIV/AIDs, malaria, and other diseases

- Target 7: Have halted by 2015 and begun to reverse the spread of HIV/AIDS
 Target 8: Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases

Goal 7: Ensure environmental sustainability

- Target 9: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources
 Target 10: Halve by 2015 the proportion of people without sustainable access to safe drinking water
 Target 11: Have achieved by 2020 a significant improvement in the lives of at least 100 million slum dwellers

Goal 8: Develop a global partnership for development

- Target 12: Develop further an open, rules-based, predictable, nondiscriminatory trading and financial system (includes a commitment to good governance, development, and poverty reduction, both nationally and internationally)
 Target 13: Address the special needs of the least developed countries (includes tariff- and quota-free access for exports, enhanced program of debt relief for and cancellation of official bilateral debt, and more generous official development assistance for countries committed to poverty reduction)
 Target 14: Address the special needs of landlocked countries and small island developing states (through the Program of Action for the Sustainable Development of Small Island Developing States and 22nd General Assembly provisions)
 Target 15: Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term
 Target 16: In cooperation with developing countries, develop and implement strategies for decent and productive work for youth
 Target 17: In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries
 Target 18: In cooperation with the private sector, make available the benefits of new technologies, especially information and communication technologies

ASSESSMENT OF PROGRESS TOWARDS THE MILLENNIUM DEVELOPMENT GOALS

Table A3.1: Status of Millennium Term Development Goals in Asia

| Country | Proportion of Population Below \$1 Per Day at 1993 Purchase Power Parity (%) | | Ratios of Girls to Boys | | | | Under-Five Mortality Rate (per 1,000 live births) | | Infant Mortality Rate (per 1,000 live births) | |
|----------------------------------|--|------|-------------------------|------|------------|------|---|------|---|------|
| | | | Primary Education | | | | 1990 | 2001 | 1990 | 2001 |
| | 1990 | 2000 | Early 1990s | | Late 1990s | | | | | |
| Afghanistan | — | — | 0.52 | (90) | 0.47 | (95) | 260 | 257 | 167 | 165 |
| Azerbaijan | <2.0 | — | 0.94 | (90) | 0.95 | (98) | 105 | 105 | 74 | 74 |
| Bangladesh | 35.9 | 29.1 | 0.81 | (90) | 0.92 | (98) | 144 | 77 | 96 | 51 |
| Bhutan | — | — | 0.74 | (93) | 0.82 | (98) | 166 | 95 | 107 | 74 |
| Cambodia | 48.3 | 35.5 | 0.81 | (93) | 0.84 | (98) | 115 | 138 | 80 | 97 |
| China, People's Republic of | 31.3 | 15.3 | 0.86 | (90) | 0.92 | (98) | 49 | 39 | 38 | 31 |
| Cook Islands | — | — | — | | 0.91 | (98) | 32 | 23 | 26 | 19 |
| Fiji | — | — | 0.95 | (91) | 0.93 | (98) | 31 | 21 | 25 | 18 |
| India | 52.5 | 44.2 | 0.71 | (90) | 0.81 | (98) | 123 | 93 | 84 | 67 |
| Indonesia | 20.6 | 8.3 | 0.95 | (90) | 0.94 | (96) | 91 | 45 | 60 | 33 |
| Kazakhstan | <2.0 | <2.0 | 0.97 | (93) | 0.97 | (98) | 67 | 76 | 54 | 61 |
| Kiribati | — | — | 0.98 | (90) | 0.96 | (97) | 88 | 69 | 65 | 51 |
| Kyrgyz Republic | — | — | 0.99 | (90) | 0.96 | (98) | 86 | 61 | 69 | 52 |
| Lao People's Democratic Republic | 53.0 | 34.6 | 0.77 | (90) | 0.82 | (98) | 163 | 100 | 120 | 87 |
| Malaysia | 0.5 | 0.0 | 0.95 | (90) | 0.94 | (98) | 21 | 8 | 16 | 8 |
| Maldives | — | — | 0.96 | (92) | 0.96 | (98) | 115 | 77 | 80 | 58 |
| Marshall Islands | — | — | — | | 0.93 | (98) | 92 | 66 | 63 | 54 |
| Micronesia | — | — | — | | — | | 31 | 24 | 26 | 20 |
| Mongolia | 13.9 | — | 1.00 | (90) | 1.01 | (98) | 107 | 76 | 77 | 61 |
| Myanmar | — | — | 0.94 | (90) | 0.97 | (98) | 130 | 109 | 91 | 77 |
| Nauru | — | — | — | | 1.02 | (98) | — | 30 | — | 25 |
| Nepal | 37.7 | — | 0.56 | (90) | 0.72 | (98) | 145 | 91 | 100 | 66 |
| Pakistan | 47.8 | 31.0 | 0.48 | (90) | 0.55 | (98) | 128 | 109 | 96 | 84 |
| Papua New Guinea | 23.7 | 18.5 | 0.80 | (90) | 0.82 | (98) | 101 | 94 | 79 | 70 |
| Philippines | 19.1 | 13.2 | 0.95 | (90) | 0.94 | (95) | 66 | 38 | 45 | 29 |
| Republic of Korea | <2.0 | — | 0.94 | (90) | 0.89 | (97) | 9 | 5 | 8 | 5 |
| Samoa | — | — | 0.98 | (90) | 0.95 | (98) | 42 | 25 | 33 | 20 |
| Solomon Islands | — | — | 0.80 | (90) | — | | 36 | 24 | 29 | 20 |
| Sri Lanka | 4.0 | 6.6 | 0.93 | (90) | 0.94 | (98) | 23 | 19 | 20 | 17 |
| Tajikistan | — | — | 0.96 | (90) | 0.95 | (96) | 78 | 72 | 57 | 53 |
| Thailand | 12.5 | 5.2 | 0.94 | (90) | 0.93 | (98) | 40 | 28 | 34 | 24 |
| Timor-Leste | — | — | — | | — | | — | — | — | 85 |
| Tonga | — | — | 0.92 | (90) | 0.86 | (98) | 27 | 20 | 23 | 17 |
| Turkmenistan | 20.9 | 12.1 | — | | — | | 97 | 99 | 56 | 76 |
| Tuvalu | — | — | 0.91a | (90) | 0.85 | (98) | 56 | 52 | 40 | 38 |
| Uzbekistan | 3.3 | — | 0.96 | (90) | — | | 62 | 68 | 47 | 52 |
| Vanuatu | — | — | 0.89 | (90) | 0.91 | (98) | 70 | 42 | 52 | 34 |
| Viet Nam | 50.8 | 9.6 | — | | 0.90 | (98) | 50 | 38 | 36 | 30 |

— = not available

^a Including three years of education provided in community training centers.[http://www.unescap.org/LDC&\[Page\]overty/MDG.asp](http://www.unescap.org/LDC&[Page]overty/MDG.asp)

Source: ESCAP and UNDP, Promoting the Medium Development Goals in Asia and the Pacific, 2003.

Table A3.2: Status of Millennium Term Development Goals in Asia

| Country | Estimated HIV Prevalence Rate (%) in Young People (15-24), | | | | Proportion of Land Area Covered by Forest | | Urban Water Supply Coverage (%) | | Rural Water Supply Coverage (%) | |
|----------------------------------|--|------|------|------|---|------|---------------------------------|------|---------------------------------|------|
| | Female | | Male | | 1990 | 2000 | 1990 | 2000 | 1990 | 2000 |
| | Low | High | Low | High | | | | | | |
| Afghanistan | — | — | — | — | 2.1 | 2.1 | — | 19 | — | 11 |
| Azerbaijan | — | — | — | — | 11.5 | 13.1 | — | 93 | — | 58 |
| Bangladesh | <.01 | 0.01 | <.01 | 0.02 | 9.0 | 10.2 | 99 | 99 | 93 | 97 |
| Bhutan | — | — | — | — | 64.2 | 64.2 | — | 86 | — | 60 |
| Cambodia | 2.31 | 4.70 | 0.94 | 3.77 | 56.1 | 52.9 | — | 54 | — | 26 |
| China, People's Republic of | 0.02 | 0.03 | 0.07 | 0.18 | 15.6 | 17.5 | 99 | 94 | 60 | 66 |
| Cook Islands | — | — | — | — | 95.7 | 95.7 | — | — | — | — |
| Fiji | — | — | — | — | 45.5 | 44.6 | — | 43 | — | 51 |
| India | 0.40 | 0.82 | 0.14 | 0.58 | 21.4 | 21.6 | 88 | 95 | 61 | 79 |
| Indonesia | 0.02 | 0.04 | 0.01 | 0.04 | 65.2 | 58.0 | 92 | 90 | 62 | 69 |
| Kazakhstan | — | — | 0.05 | 0.09 | 3.7 | 4.5 | — | 98 | — | 82 |
| Kiribati | — | — | — | — | 38.4 | 38.4 | — | 82 | — | 25 |
| Kyrgyz Republic | — | — | — | — | 4.0 | 5.2 | — | 98 | — | 66 |
| Lao People's Democratic Republic | 0.05 | 0.05 | 0.02 | 0.05 | 56.7 | 54.4 | — | 61 | — | 29 |
| Malaysia | 0.08 | 0.10 | 0.03 | 0.82 | 65.9 | 58.7 | — | — | — | 94 |
| Maldives | — | — | — | — | 3.3 | 3.3 | — | 100 | — | 100 |
| Marshall Islands | — | — | — | — | — | — | — | — | — | — |
| Micronesia | — | — | — | — | 34.8 | 21.7 | — | — | — | — |
| Mongolia | — | — | — | — | 7.2 | 6.8 | — | 77 | — | 30 |
| Myanmar | 1.13 | 2.30 | 0.42 | 1.67 | 60.2 | 52.3 | — | 89 | — | 66 |
| Nauru | — | — | — | — | — | — | — | — | — | — |
| Nepal | 0.13 | 0.26 | 0.06 | 0.23 | 32.7 | 27.3 | 93 | 94 | 64 | 87 |
| Pakistan | 0.03 | 0.06 | 0.02 | 0.10 | 3.6 | 3.1 | 96 | 95 | 77 | 87 |
| Papua New Guinea | 0.16 | 0.33 | 0.03 | 0.13 | 70.1 | 67.6 | 88 | 88 | 32 | 32 |
| Philippines | 0.04 | 0.08 | 0.01 | 0.05 | 22.4 | 19.4 | 93 | 91 | 82 | 79 |
| Republic of Korea | <0.01 | 0.01 | 0.01 | 0.03 | 63.8 | 63.3 | — | 97 | — | 71 |
| Samoa | — | — | — | — | 46.1 | 37.2 | — | 95 | — | 100 |
| Solomon Islands | — | — | — | — | 90.3 | 88.8 | — | 94 | — | 65 |
| Sri Lanka | 0.03 | 0.07 | 0.02 | 0.07 | 35.4 | 30.0 | 91 | 98 | 62 | 70 |
| Tajikistan | — | — | — | — | 2.7 | 2.8 | — | 93 | — | 47 |
| Thailand | 1.53 | 3.11 | 0.47 | 1.89 | 31.1 | 28.9 | 87 | 95 | 78 | 81 |
| Timor-Leste | — | — | — | — | 36.6 | 34.3 | — | — | — | — |
| Tonga | — | — | — | — | 6.5 | 5.5 | — | 100 | — | 100 |
| Turkmenistan | — | — | — | — | 8.0 | 8.0 | — | — | — | — |
| Tuvalu | — | — | — | — | — | — | — | — | — | — |
| Uzbekistan | — | — | — | — | 4.6 | 4.8 | — | 94 | — | 79 |
| Vanuatu | — | — | — | — | 36.2 | 36.7 | — | 63 | — | 94 |
| Viet Nam | 0.09 | 0.10 | 0.15 | 0.38 | 28.6 | 30.2 | 86 | 95 | 48 | 72 |

— = not available.

HIV = human immunodeficiency virus.

[http://www.unescap.org/LDC&\[Page\]overty/MDG.asp](http://www.unescap.org/LDC&[Page]overty/MDG.asp)

Source: ESCAP and UNDP, Promoting the Medium Development Goals in Asia and the Pacific, 2003

POVERTY REDUCTION: WHAT WORKED¹

1. In the past four decades, a number of East Asian economies have recorded extremely high rates of economic growth and achieved spectacular improvements in the quality of life. Some, particularly the newly industrialized economies (NIEs) such as Hong Kong, China; Singapore; Taipei, China; and the Republic of Korea have telescoped into a single generation a process of socioeconomic development that took the advanced economies of Western Europe centuries to achieve. The dramatic improvement in the quality of life that accompanied this miraculous economic transformation has virtually abolished extreme poverty in these societies. A number of Southeast Asian economies such as Malaysia, Thailand, and Indonesia have also made impressive strides in economic development that have resulted in a rapid reduction in poverty and brisk social development. The socioeconomic transformation of these economies over the last 40 years has been singularly impressive, and has understandably attracted wide academic and policy interest.

2. Developing Asia is also home to the majority of the world's poor, a stark contrast with the performance of the miracle economies and their enormous strides in poverty reduction. Despite some progress in recent decades, South Asia remains the bastion of poverty in both Asia and the world. The spectacular performance of the miracle economies has spawned an extensive economic literature, including a number of well-known, oft-cited studies initiated by the multilateral development institutions such as the World Bank's *The East Asian Miracle: Economic Growth and Public Policy* (1993) and the Asian Development Bank's (ADB's) *Emerging Asia: Changes and Challenges* (1997).

A. Many Lessons, Little Agreement

3. While various studies have shed light on many important dimensions of the economic miracle, a significant problem with these studies is that there are few areas of consensus that policymakers can draw on. Indeed, in some cases different studies have arrived at different lessons. For example, WB (1993, p. 367) listed six lessons that countries need to follow: keep the macroeconomy stable, focus on early education, do not neglect agriculture, use banks to build a sound financial system, be open to foreign ideas and technology, and let relative prices reflect economic scarcities. This study also found that a successful export push, whether an outcome of open economic policies or of ingenious policy interventions, offers large economic dividends.

4. The study also came up with a list of things to avoid. This list included (i) don't promote specific industries or attempt to leapfrog stages of technological development, as such attempts will generally fail; (ii) don't pursue a policy of negative interest rates or provide large subsidies to borrowers, because this will debilitate the financial system; and (iii) don't provide direct credit without adequate monitoring and proper selection of borrowers, as this will distort credit allocation.

5. In subsequent studies WB revised and modified these lessons. A WB publication by Leipziger and Thomas (1997)² underscored three attributes of the East Asian miracle: outward orientation, macroeconomic stability, and investment in people. In an even more recent

¹ Based on the study by M. G. Quibria: 2002. *Growth and Poverty: Lessons from the East Asian Miracle Revisited*, ADB Institute Research Paper 33. Tokyo: ADB Institute.

² Leipziger, D., and Vinod, Thomas. 1997 An Overview of East Asian Experience in Danny Leipziger, ed. *Lessons from East Asia*. Ann Arbor, Michigan: University of Michigan Press.

“rethinking” of the East Asian miracle, WB once again revised its views as to the salient lessons. In the introduction to this volume, Yusuf (2001)³ lists four “keys” to the East Asian miracle about which, according to Yusuf, a broad range of consensus is apparent both in WB and other studies. These keys are (i) adhering to sound macroeconomic policy; (ii) having an efficient bureaucracy that can conceive and implement the policy designs needed for a “strong” state that is credibly committed to long-term development; (iii) pursuing “activist” government policies to industrialize and export an increasing proportion of industrial output; and (iv) adopting a flexible, pragmatic policy approach that incorporates an error-correction mechanism. In contrast with the earlier WB (1993) finding that a successful export push offers high economic dividends, Yusuf found that the balance of the evidence points more in favor of imports than exports as a factor contributing to growth and productivity, because imports increase competition in the economy and help introduce new technologies.

6. ADB’s *Emerging Asia* (1997) observed that the defining characteristic of East Asia’s governments was the successful institutional base they built for rapid growth and the subsequent policies these institutions supported. This combination was important in all areas of the economy, but the following six, in particular, stand out: (i) export promotion, (ii) development led by the private sector, (iii) agriculture transformation, (iv) a high savings rate, (v) skill accumulation, and (vi) economic flexibility.

7. Little consensus exists on the lessons to be drawn from the experience of the East Asian economies. If there is so little agreement on the mechanism of the economic miracle, there is likely to be even less agreement about replicating it elsewhere in the developing world.

B. Diverse Development Experiences – “Miracle” Economies and South Asia

8. Over the longer term, the poverty reduction experiences of East and Southeast Asia provide interesting insights into the complex relationship between economic growth, income inequality, and poverty reduction. From the 1960s till about the mid-1990s, the miracle economies of Asia grew faster than any group of developing countries in the world. The newly industrializing economies (NIEs) grew the fastest at 8% per annum, while the Southeast Asian economies grew at 7% per annum. In roughly three decades, the income levels of NIEs had increased more than ninefold. These economies also experienced a dramatic increase in the quality of life and social indicators. By the 1990s, poverty had been virtually eliminated in the NIEs, while Indonesia, Malaysia, and Thailand also made impressive strides in poverty reduction. The social indicators of many of these countries are gradually converging towards industrial country averages. With the exception of South Korea and Indonesia, these economies are either experience worsening of income distribution or had no significant change in distribution. In most of these economies, inequalities remained high.

9. In contrast, South Asia experienced sluggish growth in the three decades leading to the 1990s, with per-capita income growth averaging about 2% per annum.⁴ Poverty reduction was correspondingly lackluster. Using the \$1 per day poverty line, close to 30% of South Asia’s population is still poor. With the exception of Sri Lanka, social indicators remain poor. Yet compared to the miracle economies, the South Asian countries were more egalitarian. The general conclusion is that the Asian miracle, which brought about dramatic decreases in

³ Yusuf, Shahid. 2001. *Rethinking the East Asian Miracle*. In Joseph Stiglitz and Shahid Yusuf, eds., *Rethinking the East Asian Miracle*. Oxford, U.K.: Oxford University Press.

⁴ Since the early 1990s, with the initiation of economic liberalization, the performance of South Asian economies has improved markedly.

poverty, was not necessarily “pro-poor” in terms of distribution of incremental income. Some of the South Asian economies experienced growth that was favorable in terms of distribution, yet failed to reduce poverty because growth was clearly insufficient.⁵

10. Another distinguishing feature of the miracle economies was that they invested a significant proportion of their incomes, and the level of investment increased over time with economic growth. High investment was a cause and an effect of rapid economic growth, leading to a possible virtuous cycle. Since the 1980s, foreign direct investment (FDI) also financed a significant part of this investment, especially in Southeast Asia. These investments, which were concentrated in a narrow range of products such as consumer electronics and other lower-end electrical and electronic goods, constituted the core of the industrial structure that led to outward-oriented growth.

11. The experience of South Asia contrasts sharply with that of the miracle economies. While investment rates in South Asia increased over the decades, they remained much more modest than the miracle economies. In addition, as the South Asian economies were largely closed until the early 1990s, the efficiency of investment was not high and hence did not translate into rapid growth. Moreover, these economies did not succeed in attracting much FDI until recently, and their manufacturing sectors have been largely closed to modern technologies and management practices. Taken together, these factors resulted in a vicious cycle of low investment, low growth, and low social development.

C. Lessons from the Miracle Economies

12. What worked in the miracle economies is still not a settled issue, and is bound to remain a subject of further research. A recent Asian Development Bank study has the following salient findings:

- (i) The East Asian miracle economies achieved rapid economic growth and poverty reduction, but the process was not necessarily accompanied by improvements in income distribution. In other words, the most important mechanism for reducing poverty in the East Asian miracle economies was rapid growth, which was not always distributionally favorable to the poor.
- (ii) The proximate cause of high economic growth was sustained high investment that was fostered by a congenial investment climate. The congenial investment climate, which reflects the general market orientation of these economies, was underpinned by favorable policies and institutions.
- (iii) The most critical element of the policy package was openness to trade and technology, which gave these economies the opportunity to exploit trading possibilities in the international market place and to access new technologies and raw materials. The latter was vital both to sustain international competitiveness and to economic modernization.
- (iv) The other policies and institutions that were critical complements to openness were adherence to prudent macroeconomic principles, labor market flexibility, and market-supporting political and legal institutions that favored production over

⁵ Using global data sets, some studies have estimated the growth elasticity of absolute poverty to be close to 2.

diversion. Political stability and efficient bureaucracies maintained the credibility of policies and institutions.

- (v) Not all the miracle economies had favorable initial conditions such as high educational attainment (in relation to income levels), equitable asset distribution (because of land and other reforms), and a well-developed agriculture sector (because of past high rural investment). Such conditions were not critical to initial economic success. Where present, these factors contributed to making the growth process more equitable, but they were certainly not magic keys that unlocked the process.
- (vi) Not all the miracle economies had favorable initial conditions in terms of educational and skills endowments, but they responded quickly to the evolving skills needs of an outward-oriented economy. Openness meant the availability of new, imported technologies and greater international competition, both of which heightened the demand for new and sophisticated skills.

CRITERIA FOR EVALUATING POVERTY ASSESSMENTS AND COUNTRY STRATEGIES AND PROGRAMS

Table A5.1: Criteria Used to Evaluate the Quality of Poverty Assessment

| | |
|---|--|
| <p>I. Income Poverty Data</p> <ul style="list-style-type: none"> a. Primary/Household Surveys b. Comparability of Poverty Data | |
| <p>II. Poverty Lines</p> <ul style="list-style-type: none"> a. National Poverty Line <ul style="list-style-type: none"> Absolute Line: Food and Nonfood Poverty Line | |
| <p>III. Income Poverty Indicators</p> <ul style="list-style-type: none"> a. Poverty Incidence <ul style="list-style-type: none"> a.1. National a.2. Male/Female a.3. Urban/Rural a.4. Regional a.5. Provincial a.6. Age Group/Household Size a.7. Educational Attainment a.8. Labor Market Status b. Poverty Gap c. Poverty Severity d. Poverty Profile | |
| <p>IV. Income Inequality</p> <ul style="list-style-type: none"> a. Gini Ratio b. Percentile/Quintile Ratios | |
| <p>V. Non-Income Poverty Indicators</p> <ul style="list-style-type: none"> a. Access to Drinking Water b. Access to Safe Sanitation c. Access to Basic Education <ul style="list-style-type: none"> c.1 Primary <ul style="list-style-type: none"> Gross Enrolment Ratio (GER)/Net Enrolment Ratios (NER) c.2 Secondary Schooling <ul style="list-style-type: none"> Gross Enrolment Ratio (GER)/Net Enrolment Ratios (NER) d. Access to Primary Health Care <ul style="list-style-type: none"> d.1 Infant Mortality Ratio (IMR) d.2 Under-5 Mortality d.3 Maternal Mortality e. Environment-Poverty Nexus | |
| <p>VI. Overall Welfare</p> <ul style="list-style-type: none"> a. Human Development Index (HDI) b. GDP Rank-HDI Rank | |

Table A5.1: Criteria Used to Evaluate the Quality of Poverty Assessment**VII. Causes of Poverty****VIII. Government Policy**

- a. National Poverty Reduction Strategy (NPRS)
- b. Nongovernment Organizations
- c. Private Sector
- d. International Donors
- e. Role of Donors in NPRS
- f. Complements to ADB's Policy
- g. ADB's Comparative Advantage Areas
- h. Specific Poverty Intervention
- i. Donor Coordination

IX. Recommendations**X. Synchronization of the Poverty Assessment and Country Strategy and Program**

Source: Task Force for the Review of Asian Development Bank's Poverty Reduction Strategy.

Table A5.2: Criteria Used to Evaluate Poverty Orientation of Country Strategies and Programs**1. Description of Poverty**

- a. Trends in Income Poverty
- b. Trends in Income inequality as measured by standard coefficients
- c. Trends in Non-income poverty indices

2. Identification of Causes of Poverty

- a. Policy weaknesses and other endogenous factors
- b. External environment and unforeseen factors

3. Prospects for Poverty Reduction**4. Identification/Analysis of Constraints to Poverty Reduction**

- a. Macro Conditions
- b. Financial Resources
- c. Institutional Capacity
- d. Ability to Borrow Externally

5. Extent to Which Findings of Poverty Assessments Reflected in Lending Program

- a. Use of PA findings for formulating the lending program
- b. Use of PA findings for formulating technical assistance program

Source: Task Force for the Review of Asian Development Bank's Poverty Reduction Strategy.

INFRASTRUCTURE AND POVERTY REDUCTION

A. Infrastructure Investment and Services¹

1. The purpose of investing in infrastructure capacity is to facilitate the provision of infrastructure services. Infrastructure operations are concerned with the construction and management of assets. All infrastructure investments and systems contain a public good component, from which all benefit. This includes a full road network without restricted access, and major transmission and trunk lines for energy, communications, water, and sanitation networks. It includes flood management works that protect whole communities. Given the public good nature of infrastructure assets, and the monopoly privileges they generate, there is inevitably a large role for public investment and public regulation of private investment. Private investment is more likely in the “end-of-the-line” services provided directly to users, particularly where these have the characteristics of private goods.²

2. Inclusive growth requires that the poor and near-poor should benefit from access to assets and services, employment, markets, and information. Transport, energy, water, and sanitation infrastructure help provide access to many goods and services, as well as greater mobility for employment. They facilitate connection to wider networks of information, education, health, and markets. Infrastructure investments and services can modify greater inequalities generated through a growth process by enhancing the productivity of the poor. Sometimes, access to infrastructure services, especially for water, is regarded as an entitlement for all, justifying transfers in favor of those without.

3. Infrastructure operations are employed in all facets of Asian Development Bank (ADB) operations. Poverty-reducing interventions can be short-term, to sustain supply of basic services; medium-term, to address structural issues of delivery of services to the poor; and long-term, to stimulate pro-poor growth and encourage private sector expansion.³ Examples of all three types of intervention can be found in ADB operations. Infrastructure rehabilitation and improvement are often needed in the wake of disasters and conflicts. Extended coverage to the poor poses important questions concerning removal of barriers to access and user payments. Larger-scale network investments stimulate economic growth, incomes, and employment. Infrastructure has played a significant role in regional cooperation and in private sector operations.

4. ADB sees its comparative advantage in financing relatively large investments and related policy reform, to contribute to pro-poor economic growth. Evaluation results for previous projects support this view, especially those in the transport and energy sectors where the success rate is consistently the highest.⁴ Infrastructure is a key input for market efficiency and employment that should raise the incomes of the poor. They are often the highest priority, both among poorer communities and at the national level.

¹ This discussion is concerned primarily with transport, energy, water, and sanitation infrastructure and services.

² Private goods or services are those delivered to a specific user (individual, household, enterprise, or institution), which do not detract from services to other users, and therefore where the extent of use can be measured and accounted for.

³ Private sector development is seen as stimulating growth and reducing poverty indirectly. However, it may add to inequality, especially in the case of infrastructure services with monopoly elements.

⁴ ADB. 2003. *Annual Review of Evaluation Activities in 2002*, Section IV. Manila.

B. Infrastructure and Sustainable Growth

5. There can be debate about which forms of infrastructure investment help reduce poverty on the most sustainable basis, but there can be little doubt that infrastructure investment is important to reducing poverty. Initial studies of infrastructure and poverty reduction focused on rural areas, where the majority of the poor live, and on income effects and access to health and education services. They confirmed the broad positive effects of infrastructure investments. However, little distinction was drawn at first between the rural poor and non-poor. Rural roads, for example, provided opportunities to those in the best position to take advantage, through access to land, technology, credit, and agricultural services. At the same time, such investments could have negative effects on ethnic minorities, deforestation, soil degradation, flooding, and other environmental damage. There were also clear differences in the impact of infrastructure projects according to gender.

6. Subsequent longitudinal studies in four Asian countries have investigated the combined effects of different forms of public expenditure in infrastructure and social sectors, not just those in a single sector. At the province or district level, public investment can improve agricultural productivity, wage employment, and rural-urban terms of trade.⁵ Public investments in roads and education consistently are the main drivers of poverty reduction. The same is true for agricultural research and extension. Irrigation and power have lower impacts. There are lags in the process. Roads have a 7-year lag from an increase in expenditure, education an 11-year lag, and research and extension 13 years.

7. Such macroeconomic studies also confirm the synergies between infrastructure and social sector expenditure. Rural poverty reduction is achieved through a combination of infrastructure investments, livelihood strategies, and increasing the involvement of women. Rural households do not behave differently depending upon whether they are just above or below a “poverty line”. Strategies are aimed at reducing risks to household incomes and assets as much as generating immediate increases in income.

8. Infrastructure investments contribute to growth. In a growing economy, there will be a need to expand infrastructure and related services, to enhance capacity and efficiency. Opportunities cannot be taken up locally unless there is a connection to larger networks at the provincial and national levels. Expanding domestic markets, especially to compensate for the uncertainties of international demand, depends on being able to deliver throughout the country. Whether this contributes to poverty reduction depends upon the quality of the growth. In turn, this requires focusing on policy and institutional changes to redirect a larger share of benefits toward the poor, to make markets work for the poor.⁶ A key finding is that maintaining competition in service delivery, with minimal barriers to entry, and encouraging private sector participation under regulation will improve efficiency and coverage. This will maximize the cost savings to users and encourage service providers to differentiate between user groups. Regulation should be tailored to the scale of enterprise or institution providing the service. There may be much greater scope for small-scale private provision of infrastructure service, including community organizations, than has been used to date.

⁵ A reduction in the costs of transport, energy, and other inputs can reduce the costs of inputs and consumption goods and facilitate higher net product prices.

⁶ Willoughby, Christopher. 2003. Can Public Institutions Be Leading Agents for Pro-Poor Growth. *Workshop on Infrastructure and Poverty Reduction*. Tokyo: ADB Institute.

9. It has often been assumed that infrastructure investment and services would be attractive to the private sector. Experience, even in growing economies, has not matched expectations. Largely, this is as a result of unreasonable expectations. Many infrastructure investments, especially network investments, involve large-scale upfront capital and relatively small operating costs. They are lumpy and have a long life. It is difficult to match supply to increases in demand. Where access is not restricted by price or other means, the number of users is uncertain. In transport, there are alternative means of moving both freight and people. The downside risks to infrastructure investments are high, and there is little chance of windfall gains from sudden increases in demand. Governments may not be skilled at regulating private providers, a factor that adds to uncertainty. Returns can therefore grow consistently, but may not be high and are risky. Limited private investment in infrastructure confirms the limited incentives for private providers.

10. Environmentally sustainable growth does not deplete natural capital. Air, water, and land can all be affected by infrastructure investments and services. Lives are lost on roads. Degradation, pollution, and safety impose heavy social costs locally, nationally, and even globally. The disproportionate losers are the poor, who may depend on polluted water sources, or live in areas most affected by declining air quality. Some may not even be able to access the service that generates the pollution. These impacts are the clearest examples of public “bads” that the actions of a few impose on the many. They need to be dealt with through regulation and investments, as part of a pro-poor infrastructure policy.

C. Infrastructure and Social Development

11. Infrastructure investments contribute to social development in a variety of ways. All infrastructure services have productive and social functions. Water is supplied to different types of users; so are power and transport. The main effect of sanitation is avoided ill health. Water supply contributes to jobs as well as health. Energy development contributes to basic education, nutrition and health through cooking and domestic air quality, and conservation of natural resources. Transport services facilitate both access to and provision of social services. Equally important are the social capital-building effects of urban and rural community organization around infrastructure investments and service delivery and of mobility, migration, and information.

12. Infrastructure investments that succeed in reaching the poor may save a significant amount of time. This is particularly true for transport, but also applies to water and energy projects that relieve the burdens, usually on women and children, of fuel and water transport, and of processing of water and fuel before use. Much qualitative analysis has stressed the time poverty in the lives of the poor, especially women. The value of a single intervention in terms of time saved can represent a significant proportion of time in a day that can be used for many purposes both in and out of the household. Time saved can be crucial to the smallest innovation, reducing risks and increasing productivity. The value of time to poor people may exceed substantially the opportunity cost of labor from seasonal and uncertain wage labor, through which it is generally estimated.

13. One of the ways in which infrastructure investments directly benefit the poor is through jobs. Labor-based methods have been more widely applied in Asia, where labor is abundant. However, as the productivity of unskilled labor increases, the contribution of labor-based methods to pro-poor growth becomes less apparent. Labor-based methods offer employment to the weakest and most vulnerable groups. They can also transfer resources to people hit by natural disaster. Risks to the vulnerable are thus mitigated. However, there is little contribution

to sustainable poverty reduction; the goal of development is to engage even the poorest and most vulnerable in more productive work.

14. Access and sustainability of infrastructure and infrastructure services depends upon user payments. Typically, the poor pay more for lower-quality goods and services. At the same time, they are underrepresented as users in water and power systems. The rural poor may also be too poor to pay for motorized transport services, inhabiting a world of footpaths. In these circumstances, there is strong pressure to provide financial subsidies for infrastructure investment and services, to reach out to the poor on the mantra of affordability. However, the public character of infrastructure assets makes it difficult and undesirable to limit infrastructure services to the poor. The non-poor benefit disproportionately. Subsidies therefore should be limited in scope, targeted, and transparent. Where the private sector provides services, subsidies can be minimized through bidding. Overall, subsidies to the non-poor in providing infrastructure services should be eliminated as far as possible, to direct financial resources to areas where they are most needed.

D. Infrastructure and Governance

15. Governance problems are among the key factors preventing the benefits of infrastructure investments and services from reaching the poor. Corruption affects all types of infrastructure activity. This relates to the private sector as well as the public sector. It involves international contractors and suppliers, as well as domestic ones. Corruption distorts project selection and project design; funds get diverted, and capacities reduced. Maintenance equipment can be diverted for other purposes. Collusion between government officials, contractors, and clients may result in substandard construction and service delivery, reducing asset lives and increasing operating costs. Contracts may simply be broken where the legal and administrative framework for enforcement is weak. Inappropriate standards, regulations, and costing may also affect infrastructure outcomes.

16. ADB's governance policy can militate against such features of infrastructure projects. Accountability can be promoted through institutional changes. Transparency can be introduced into contracting procedures, supplies and billing for users, and privatization. Developing relevant laws and regulations can enhance replicability. Many measures have been put into operations for improving accountability and transparency, as well as improving sector institutions and management. They have been backed up through conditionality in the areas of job opportunities and protection of women and children, service quality improvements, and tariff structures.

17. Sector policies have been prepared since approval of the Poverty Reduction Strategy (PRS) for energy and for water.⁷ The energy policy supports off-grid and renewable energy options to meet the needs of poor and remote communities. Policy is oriented toward unbundling and appropriate privatization of service delivery, and tariff structures reflecting costs with transparent budget support for subsidies to the poor. The water policy addresses the poverty-environment nexus, and the meeting of basic household and agriculture needs when competing with alternative water uses, in the context of an integrated approach to water management at the river-basin level. Efficiency requires not just participation of the private sector but of water users, with clarification of water rights. Water pricing should ensure the poor are not excluded, but subsidies should be phased out as quality and reliability of service rises.

⁷ ADB. 2000. *Energy 2000: Review of the Energy Policy of the Asian Development Bank*. Manila; ADB. 2001. *Water for All: The Water Policy of the Asian Development Bank*. Manila.

E. Infrastructure and Regional Cooperation

18. The PRS was extended and amplified in the Long Term Strategic Framework (LTSF). It emphasized the need for both (i) economic and social infrastructure to support sustainable growth in per-capita income, and (ii) public investment to make growth inclusive. The LTSF uses an additional definition of poverty at the national and regional level; development should be promoted in the poorer countries of a region. ADB contributes to this process through regional cooperation, which promotes investments and policies among a number of countries. This provides a justification for continued attention to Central Asia and the Pacific that contribute little to the overall reduction in poverty in a headcount sense. It provides the justification for operations among regional groupings to expand the possibilities for trade and growth. Regional cooperation projects often incorporate disadvantaged border areas of a country as well as disadvantaged countries.

19. Infrastructure plays a large role in regional cooperation activities. Transport and the facilitation of movement between countries is key to such cooperation, crucial to landlocked countries. Energy and water resources are other key elements of cooperation. However, there are other regional externalities associated with such cooperation. Countries tied together by trade and cooperation will be more stable. Cooperation can extend to combating disease, instability, and security that greater mobility can bring. Environmental resources and problems do not recognize national boundaries. Regional cooperation inevitably requires a substantial policy and institutional input, not just investment. National priorities do not always coincide. The essential issues in regional infrastructure projects are cooperation, agreement on the purposes and timing of specific interventions, and establishment of fair sharing of benefits and costs.

F. Conclusions

20. By elevating poverty reduction as ADB's overarching objective, the PRS created an incentive for devoting more time and attention to this issue. Over the past decade, serious attempts have been made to incorporate poverty reduction in the design of infrastructure projects, and infrastructure components in projects oriented to poverty reduction. Attention to economic growth, human development, gender equity, and environmental sustainability remain constant, while private sector development and regional cooperation are new priorities.

21. There is a strong understanding that infrastructure projects help alleviate poverty in various dimensions, even where there is limited direct impact on incomes. Direct impact on incomes may not be sufficient to have a major impact on the headcount of poor persons. Vulnerability to risk means that operations should focus on minimizing degradation and displacement, and positively address issues of water and air quality, flood control, and disaster management.

22. The network nature of economic infrastructure requires continuing support for the efficient operation of core elements, and expansion in line with economic growth. Only when these systems are functioning effectively will end-of-line investments bring significant improvements. The shift toward smaller scale and more rural investments has not been dramatic. This is in part because of resistance by clients to borrow for projects oriented only to the poor, with a consequent increase in project and transactions costs, and because of the "public good" nature of infrastructure assets and services.

23. Complementary investments can be included in infrastructure projects to increase the probability that benefits will reach the poor. Alternatively, infrastructure components can be

included in multisector projects targeted to poor areas. Investments need to be complemented by policy and institutional changes to enhance overall effectiveness of infrastructure sectors, ensure adequate funding, and reduce subsidies to the non-poor.

24. The requirement to consider poverty impact in all projects has raised awareness of the issue and resulted in a stronger focus on poverty in project design. This is true for projects classified as “other” as much as for those classified as Poverty Intervention. Evidence has shown that there is considerable scope for improving the poverty reduction impact of projects without meeting the criteria presently adopted for targeting. At the same time, there may be a perverse incentive to misclassify projects at approval in order to achieve institutional targets rather than to reduce poverty; the project classification system has become the prism through which many staff members see the PRS. Location and pro-poor components are not the only ways to promote poverty reduction. Although the categories and criteria for classification purposes may be sufficient for ex-post tracking of approved operations, where a broader definition of poverty is used, including vulnerability, security, equity, policy, and institutional changes may have a greater impact on poverty than investments.

25. The potential for infrastructure investments to reduce poverty is greatest when poverty is widespread. As poverty associated with lack of access to infrastructure services diminishes, it becomes more necessary to combine infrastructure with complementary investments. However, large infrastructure operations will continue to support growth, reduce externalities, moderate risk, and link the local to the national and international. If well designed, both capacity expansion and environmental mitigation can disproportionately benefit the poor.

LENDING OPERATIONS BY SECTOR

Table A8: Annual Average Lending By Sector
(\$ million)

| Sector | Pre-PRS (1997–1999) | | | | Post-PRS (2000–2003) | | | |
|--------------------------------------|---------------------|--------------|--------------|------------|----------------------|------------|--------------|------------|
| | Number | % | Volume | % | Number | % | Volume | % |
| 1. Ordinary Capital Resources | | | | | | | | |
| Agriculture | 4 | 15.3 | 252 | 9.0 | 4 | 11.7 | 222 | 5.4 |
| Energy | 2 | 8.2 | 365 | 13.0 | 6 | 17.2 | 728 | 17.7 |
| Finance | 1 | 4.7 | 94 | 3.4 | 4 | 11.7 | 472 | 11.4 |
| Industry | 2 | 5.9 | 116 | 4.1 | 1 | 3.1 | 124 | 3.0 |
| Multisector | 1 | 3.5 | 110 | 3.9 | 1 | 3.9 | 210 | 5.1 |
| Social Infrastructure | 9 | 32.9 | 809 | 28.9 | 7 | 21.1 | 465 | 11.3 |
| Transport and Communication | 6 | 21.2 | 788 | 28.1 | 8 | 25.0 | 1,546 | 37.5 |
| Others | 2 | 8.2 | 269 | 9.6 | 2 | 6.3 | 354 | 8.6 |
| Total | 28 | 100 | 2,803 | 100 | 32 | 100 | 4,119 | 100 |
| 2. Asian Development Fund | | | | | | | | |
| Agriculture | 8 | 22.4 | 267 | 21.8 | 13 | 26.2 | 413 | 27.7 |
| Energy | 2 | 6.5 | 104 | 8.5 | 3 | 6.7 | 99 | 6.7 |
| Finance | 3 | 9.3 | 61 | 5.0 | 5 | 10.3 | 73 | 4.9 |
| Industry | 0 | 0.9 | 20 | 1.6 | 1 | 1.0 | 7 | 0.4 |
| Multisector | 3 | 9.3 | 61 | 5.0 | 4 | 7.7 | 165 | 11.1 |
| Social Infrastructure | 11 | 31.8 | 356 | 29.0 | 14 | 27.7 | 432 | 28.9 |
| Transport and Communication | 5 | 14.0 | 323 | 26.3 | 5 | 9.7 | 183 | 12.3 |
| Others | 2 | 5.6 | 34 | 2.8 | 5 | 10.8 | 119 | 8.0 |
| Total | 36 | 100.0 | 1,226 | 100 | 49 | 100 | 1,492 | 100 |
| 3. Total | | | | | | | | |
| Agriculture | 11 | 18.5 | 518 | 12.9 | 15 | 20.1 | 635 | 11.3 |
| Energy | 5 | 7.6 | 469 | 11.6 | 8 | 10.5 | 828 | 14.8 |
| Finance | 5 | 7.6 | 155 | 3.9 | 8 | 10.9 | 545 | 9.7 |
| Industry | 2 | 2.7 | 136 | 3.4 | 2 | 2.0 | 130 | 2.3 |
| Multisector | 4 | 7.1 | 171 | 4.3 | 5 | 5.9 | 375 | 6.7 |
| Social Infrastructure | 19 | 31.5 | 1,165 | 28.9 | 20 | 25.7 | 896 | 16.0 |
| Transport and Communication | 11 | 17.9 | 1,110 | 27.6 | 12 | 16.1 | 1,729 | 30.8 |
| Others | 4 | 7.1 | 303 | 7.5 | 7 | 8.9 | 473 | 8.4 |
| Total | 61 | 100 | 4,029 | 100 | 76 | 100 | 5,611 | 100 |

PRS = Poverty Reduction Strategy.

Note: Total project number and volume exclude loans extended in response to the Asian financial crisis.

Source: Asian Development Bank Project Processing Information system.

REVIEW OF CHANGES IN ADVISORY TECHNICAL ASSISTANCE DESIGNS

| Sector | 1998-1999 | | 2001-2002 | |
|--|-----------|-----------|-----------|-----------|
| | Number | % | number | % |
| A. Direct focus on Poverty Reduction Measures | | | | |
| Agriculture | 16 | 84 | 9 | 90 |
| Energy | 1 | 8 | 3 | 25 |
| Finance | 1 | 5 | 1 | 4 |
| Industry | — | — | — | — |
| Social Sector | 18 | 69 | 12 | 67 |
| Transport and Communication | — | — | 6 | 55 |
| Multisector | — | — | 1 | 20 |
| Others | 11 | 22 | 21 | 41 |
| Governance | — | — | 2 | 10 |
| Crosscutting | 7 | 78 | 4 | 67 |
| Economic Planning & Mgt | 2 | 33 | 6 | 100 |
| Project Management | 1 | 11 | — | — |
| Poverty Reduction | 1 | 13 | 9 | 100 |
| Others | — | — | — | — |
| Total | 47 | 33 | 53 | 40 |
| B. Participation of the Poor in Technical Assistance Activities | | | | |
| Agriculture | 8 | 42 | 2 | 20 |
| Energy | — | — | — | — |
| Finance | — | — | 1 | 4 |
| Industry | — | — | — | — |
| Social Sector | 1 | 4 | — | — |
| Transport and Communication | — | — | 1 | 9 |
| Multisector | — | — | — | — |
| Others | 6 | 12 | 6 | 12 |
| Governance | — | — | — | — |
| Crosscutting | 5 | 42 | 3 | 50 |
| Economic Planning & Mgt | — | — | — | — |
| Project Management | 1 | 11 | — | — |
| Poverty Reduction | — | — | 3 | 33 |
| Others | — | — | — | — |
| Total | 15 | 11 | 10 | 7 |
| C. Decentralization | | | | |
| Agriculture | 9 | 47 | 6 | 60 |
| Energy | — | — | 1 | 8 |
| Finance | — | — | 2 | 9 |
| Industry | — | — | — | — |
| Social Sector | 16 | 62 | 10 | 56 |
| Transport and Communication | 4 | 33 | 4 | 36 |
| Multisector | — | — | 1 | 20 |
| Others | 6 | 12 | 13 | 25 |
| Governance | — | — | 3 | 14 |
| Crosscutting | 3 | 33 | 4 | 67 |
| Economic Planning & Mgt | 2 | 33 | — | — |
| Project Management | 1 | 11 | 1 | 25 |
| Poverty Reduction | — | — | 4 | 44 |
| Others | — | — | 1 | 20 |
| Total | 35 | 25 | 37 | 28 |

REVIEW OF CHANGES IN ADVISORY TECHNICAL ASSISTANCE DESIGNS
(Continued)

| Sector | 1998-1999 | | 2001-2002 | |
|--|-----------|-----------|-----------|-----------|
| | Number | % | Number | % |
| D. Provision of Poverty/Social Experts in a Consulting Team | | | | |
| Agriculture | 5 | 26 | 4 | 40 |
| Energy | — | — | — | — |
| Finance | 1 | 5 | 1 | 4 |
| Industry | — | — | — | — |
| Social Sector | 3 | 12 | 3 | 17 |
| Transport and Communication | — | — | 3 | 27 |
| Multisector | — | — | — | — |
| Others | 5 | 10 | 14 | 27 |
| Governance | — | — | — | — |
| Crosscutting | 4 | 44 | 3 | 50 |
| Economic Planning & Mgt | — | — | 3 | 50 |
| Project Management | — | — | — | — |
| Poverty Reduction | 1 | 100 | 8 | 89 |
| Others | — | — | — | — |
| Total | 14 | 10 | 25 | 19 |
| E. Integration of Crosscutting Priorities | | | | |
| Agriculture | 5 | 26 | 7 | 70 |
| Energy | 4 | 33 | 2 | 17 |
| Finance | 1 | 5 | 3 | 13 |
| Industry | — | — | 2 | 50 |
| Social Sector | 3 | 12 | 3 | 17 |
| Transport and Communication | 2 | 17 | — | — |
| Multisector | — | — | — | — |
| Others | 5 | 10 | 4 | 8 |
| Total | 20 | 14 | 21 | 16 |

ADTA = advisory technical assistance.

Note: Total number and volume of ADTAs exclude all ADTAs that are piggybacked to loans related to the Asian financial crisis and TA 3874: AFG – Capacity Building for Reconstruction and Development (approved in 2002 for \$14.6 million).

Source: 360 ADTA reports, representing 50% sample stratified by sector annually.

SUGGESTED INDICATORS FOR MONITORING THE POVERTY REDUCTION STRATEGY AT THE INSTITUTIONAL (ASIAN DEVELOPMENT BANK) LEVEL

I. Suggested Output Indicators

Country Operations

- Number of countries with results-based country strategies and programs (CSPs)
- Country portfolio performance

Lending Operations

- Quality at entry rating
- Distribution by pillars
- Proportion of projects that mainstream thematic priorities (five indicators)
- Distribution by sectors
- Proportion of projects classified as targeted interventions (according to the new classification)

Nonlending Operations

- Quality at entry rating
- Distribution by pillars
- Proportion of technical assistance grants (TAs) that focus on thematic priorities (five indicators)
- Distribution by sectors
- Proportion of TAs that directly support the implementation of a national poverty-reduction strategy (NPRS)

Contribution to Poverty Knowledge Base

- Number of poverty-related articles from Asian Development Bank (ADB) in refereed journals and other publications
- Number of hits on ADB's poverty reduction website

Improved Partnership

- Number of poverty assessments undertaken jointly with other partners
- Number of joint portfolio reviews
- Participation in donors' consultative group and similar meetings and events
- Proportion of projects with cofinancing (that complements ADB's comparative advantage)
- Proportion of projects with involvement of nongovernment organizations
- Proportion of TA operations with cofinancing or partnership with other agencies
- Some qualitative indicators based on periodic survey of partner agencies

II. Suggested Outcome Indicators

Country Operations

- Self and independent evaluation of CSP
- Number of countries with a well-articulated NPRS
- Number of countries with an adequate system for monitoring of Millennium Development Goals

Lending Programs

- Quality at entry rating
- Project completion report (PCR) and project performance audit report (PPAR) ratings
- Independent evaluation at sector and thematic levels

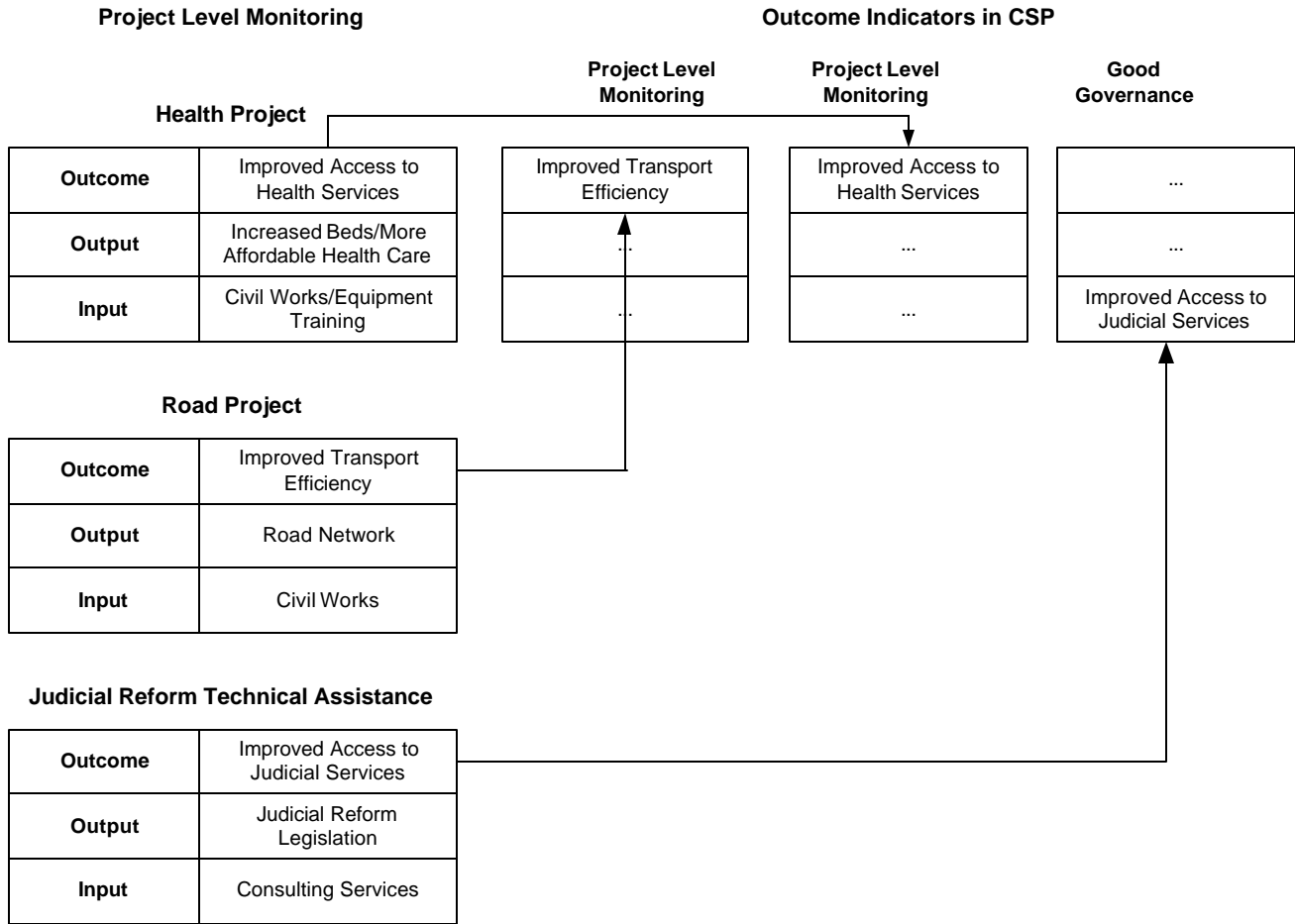
Nonlending Operations

- Technical assistance completion reports (TCRs) and quality evaluation ratings
- Independent evaluation at sector and thematic levels

LINKING PROJECT MONITORING TO COUNTRY-LEVEL OUTCOMES: AN ILLUSTRATIVE APPROACH

1. Developing results-based and evaluable country strategies and programs (CSPs) will require considerable analysis, consultation, and experimentation. ADB already has extensive experience in, and knowledge of, project-level monitoring. The challenge would be to establish a logical link between project- and country-level monitoring and evaluation (M&E) systems. While such a system will be developed under the ADB-wide Managing for Development Results initiative, the following discussion presents a possible approach.
2. CSP outcomes could be quantified through a set of indicators for each relevant pillar and thematic priority. For example, the indicators could relate to road network or energy availability under the pro-poor sustainable economic growth pillar; availability of key social services under the social development pillar; and public expenditure, access to legal services, and decentralization under the good governance pillar.
3. The CSP will indicate how these desired outcomes would be met through the country program. Each lending or nonlending project would address one or more country-level outcome indicator. For example, a road project could seek to achieve target for the road network under the pro-poor growth pillar, while a health project could assist in meeting the availability of health service target under the social development pillar. Figure A10 presents a stylized CSP monitoring framework, linking project monitoring to country-level outcomes.
4. Logical frameworks for individual lending or nonlending projects will continue to include sector-level outcome indicators, targets, and monitoring mechanisms. Linkages between project outputs and sector outcomes would be clearly shown in the sector roadmaps. CPS would collate these outcome indicators to demonstrate the overall contribution of the country program to outcomes at the level of the pillars and thematic priorities.

Figure A10: Linking Project Monitoring to Country Level Outcomes



... = other outcome indicator.
 CSP = country strategy and program.