

**ASIAN DEVELOPMENT FUND (ADF)  
ADF IX DONORS' MEETING  
Copenhagen, 9-10 October 2003**

**THE ASIAN DEVELOPMENT BANK'S  
POVERTY REDUCTION STRATEGY: LESSONS AND ISSUES**

**Progress Report**

**ABSTRACT**

**Asian Development Bank  
September 2003**

## **Abstract of the Progress Report**

### **Review of The Asian Development Bank's Poverty Reduction Strategy – Lessons and Issues<sup>1</sup>**

1. The Asian Development Bank (ADB) is currently reviewing its Poverty Reduction Strategy (PRS) approved in 1999. To date, the review has assessed Asia and the Pacific's track record in reducing poverty, ADB's implementation experience of PRS, and the relevance of the conceptual framework of the PRS. It has also identified major issues that require further consideration. The PRS review is continuing and a final report is due to be completed before the end of the year.

2. An extensive process of analysis and consultation is being followed. Focus group discussions and individual interviews were organized with different categories of staff. In-country assessments were undertaken for six developing member countries (DMCs), involving discussions with government officials, civil society including nongovernment organizations (NGOs), academics, and development partners. This was complemented by a DMC workshop in August 2003, at which representatives of 33 borrowing countries participated. A panel of five external advisers has provided extensive comments on the methodology and preliminary results.

#### **A. Poverty in Asia and the Pacific**

3. Asia and the Pacific's record in reducing income poverty has been impressive. In 1990, some 32% of people in the region lived under the international dollar-a-day poverty line. By 2000, this proportion had come down to 23%. The absolute number of poor also declined by around 165 million, from 900 million in 1990 to 735 million. Poverty incidence would have been even lower without the financial crisis late in the decade. Poverty reduction in Asia and the Pacific in the 1990s compares favorably with other developing regions, such as Latin America and Sub-Saharan Africa.

4. Although the People's Republic of China (PRC) and India account for the bulk of the region's poverty reduction during the decade, the majority of subregions and countries witnessed reduced poverty. In Central Asia, poverty incidence was higher at the end of the 1990s, but already declining from the high levels early in the decade. On current trends, with continued growth, Asia and the Pacific will meet the Millennium Development Goal (MDG) of halving the proportion of poor population by the year 2015. But there are still countries and regions within countries that are unlikely to meet the income poverty target. Asia and the Pacific still has more than 60% of the world's poor, the majority, about 425 million people, in South Asia.

5. There has been less progress in reducing non-income dimensions of poverty. For instance, the rate of under-five mortality has come down from 85 per thousand in 1990 to only 70 per thousand in 2000, a rate too slow to meet the MDG of reducing under-five mortality by two-thirds by 2015. In South Asia in particular, the rates of under-five mortality and infant mortality remain high. South Asia's progress in immunization of children, births attended by skilled health staff, and combating HIV/AIDS remains slow.

---

<sup>1</sup> This is an abstract of a progress report prepared in September 2003 by the Task Force for the Review of ADB's Poverty Reduction Strategy.

6. The record of improving educational achievement has been modest. The rate of youth literacy has risen only marginally from 82% in 1990 to 85% in 2000. On current trends, the MDGs related to education seem unachievable without significant changes in funding. Again, South Asia presents the biggest challenge. The record in meeting the MDG relating to environmental sustainability, 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.

## B. Implementation Progress of the PRS

7. It is premature to assess the impact of implementing the PRS on poverty reduction on the ground, since none of the investment projects approved since the adoption of the PRS has been completed. The review, therefore, assesses the realignment of ADB's institutional capacity and operations in response to the PRS.

8. Since the adoption of the PRS, ADB operations have become more poverty oriented, both in terms of substance as well as process.

- Poverty analyses have been undertaken and poverty partnership agreements (PPAs) signed in a majority of DMCs. The poverty analyses and PPAs have been the main means of incorporating the PRS elements in ADB's country level operations. The poverty analyses have increased awareness and understanding by DMCs and ADB staff of the causes and consequences of poverty.
- One country operational strategy, seven country strategies and programs (CSPs), and over 50 CSP updates (CSPUs) have been approved by the Board. Six more CSPs are expected to be approved in 2003. The CSPs have sharpened the strategic focus of ADB's operations on poverty reduction (Box 1). Many CSPs and CSPUs have called for greater strategic attention to poor and underserved areas.

### Box 1: Application of PRS Framework in CSPs

DMC consultations presented a diverse picture of ADB support for poverty reduction, with varying weights given to different pillars.

**India.** The CSP, organized under the central theme of poverty reduction, draws on all three pillars of the PRS. The strategy recognizes sustainable growth as the main strategic pillar for reducing poverty, and identifies four operational priorities to support it -- fiscal consolidation, infrastructure development, private sector development, and agriculture and rural development. The social development and governance pillars are mainstreamed in all ADB operations.

**Viet Nam.** The CSP provides almost equal weight to the three pillars to support the government's poverty reduction strategy. ADB supports agriculture and small and medium enterprises to promote economic growth, health and education sectors to strengthen social development, and public administration reforms to improve governance. Approximately one third of lending is focused on the relatively poor Central Highlands.

- Project designs have been considerably reoriented towards poverty reduction (Box 2). The process of project design has become more participatory. The poverty focus of projects is sharpened by the use of techniques such as poverty mapping, geographical information systems, and distributional analyses. By loan amount, the proportion of approved projects classified as poverty interventions (PI) increased from 29% in 2001 to 42% in 2002, meeting the 40% lending target for PIs. Crosscutting priorities are also being increasingly mainstreamed in ADB operations.

- There has been a diversification of activities into new areas. Overall, the proportion of transport and energy operations has risen. The share for social infrastructure has declined, from an exceptional level in response to the Asian financial crisis.

**Box 2: Reaching the Poor: Some Innovative Approaches**

**Public Private Partnership for Health Services in Cambodia.** The Ministry of Health is contracting NGOs to deliver health services as an alternative to conventional government provision under the Health Sector Support Project. An independent evaluation of an earlier pilot 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.

**Community Based Provision of Water in Pakistan.** Pakistan is implementing the Punjab Rural Water Supply and Sanitation Sector Project, using a community-based approach. It has provided safe drinking water and drainage facilities to about 800,000 people. The main impact has been to free up women and children from carrying water for 2-6 hours per day. A survey found a more than 90% reduction in water related diseases, an average increase in household income of 24%, and an 80% increase in enrolment of school children.

**HIV/AIDS Prevention in Transport Projects.** Several transport projects have integrated HIV/AIDS and trafficking prevention. For example, the Western Yunnan Roads Development Project in PRC 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.

- Despite shrinking resources for technical assistance (TA), an increasing proportion of TAs are being directed to strengthen DMCs' capacity to plan and monitor poverty reduction activities, improve governance, and strengthen social protection. ADB has provided a total of 30 advisory TAs (ADTAs) (amounting to \$10.7 million) in 22 DMCs to strengthen capacity for analyzing and monitoring poverty. During the same period, 13 ADTAs (amounting to \$6.0 million) were approved in 11 DMCs to assist them in formulating national poverty reduction strategies.
- The monitoring of PRS implementation by ADB has focused on the lending target for PI projects, and progress in preparing poverty analyses and PPAs. Poverty-focused monitoring mechanisms have been incorporated into many project designs.

9. To advance the effectiveness of its assistance, ADB has made more strategic use of its existing modalities, such as the cluster and sector approaches. Special grant funds, established after the adoption of the PRS, have provided an incentive for staff to change project designs towards addressing poverty. While envisaged in the PRS, ADB has not been able to offer special terms on ordinary capital resources (OCR) for certain DMCs or create separate funding facilities for regional cooperation.

10. ADB has improved its institutional capacity to deliver the PRS through internal reorganization and strengthening of resident missions. ADB has increased its staff since 2000 to strengthen its skill mix particularly in relation to poverty reduction and the crosscutting priorities.

11. Both at the strategic and operational levels, ADB's partnerships with civil society and international development agencies have strengthened. Civil society groups, especially nongovernment organizations (NGOs), have been more closely involved in policies and projects (Box 3). ADB's collaboration with other development partners has strengthened through jointly undertaking poverty and other macro-level assessments, and country programming and portfolio reviews.

12. The improved poverty focus of ADB's operations has not come without costs. Project designs have become more complex, putting additional pressure on resources for project implementation both at ADB and DMC levels. Project preparation has also become more resource intensive. Projects targeted to individuals and households were found to be complex to prepare and implement. Geographical and sector targeting is more cost effective. Implementation of PRS has diversified ADB-supported sectors at country level. TA and Asian Development Fund (ADF) resources have been subject to new demands and are proving to be insufficient. Box 4 summarizes staff view and concerns on the PRS.

#### Box 3: NGO Feedback on PRS Implementation

Meetings with representatives of about 80 NGOs during the DMC consultations in PRC, 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 NGOs in ADB activities has increased in the last three years, both at policy as well as project levels. Several NGOs were closely involved in developing 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.

#### Box 4: Staff Perspectives on the PRS

The following 7 themes represent the major staff views and concerns on the PRS shown in staff feedback sessions involving about 150 staff. All levels of operational staff, including Directors and Directors General, expressed similar conclusions.

**Awareness.** ADB staff are now more aware of and sensitive to 'poverty reduction' as an operational concept following the adoption of the PRS.

**Lending target and project classification.** The 40% target for PI projects and the project classification system are flawed and costly—they encourage unnecessary add-ons and detract attention from project quality

**DMC priorities.** In many cases, the 40% lending target makes it difficult to align well 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).

**Organizational constraints.** ADB needs to improve its culture, structure, business processes, and skill mix to more effectively deliver its poverty reduction agenda.

**Incentives.** Staff incentives have not really changed to support poverty reduction. Staff are not rewarded for poverty reduction *per se* but for the speed of processing and the size of projects. No incentives exist for staff's professional development. Heavy workload prevents most project staff from benefiting from skills training, under the current resource constraints.

## C. Conceptual Framework

13. The conceptual framework of PRS and the subsequent Long Term Strategic Framework, consisting of the three *pillars* (pro-poor sustainable economic growth, inclusive social development, and good governance) and the four *crosscutting priorities* (environment, gender, private sector development, and regional cooperation), is broad enough to meet the development challenges of the MDGs. However, the specification of sub-sector priorities in the PRS tends to narrow the focus and does not acknowledge the significant variations in development levels of different countries. Similarly, the PRS does not provide guidance as to how and to what degree crosscutting priorities should be supported.

14. Setting an institutional lending target of 40% for PI projects, and the supporting project classification system, has confused ends with means. It has encouraged preparation of projects that are often complex in design, difficult to implement, and carry additional costs for DMCs and ADB (Box 5).

### Box 5: Problems of the PI Classification System and the 40% Lending Target

**Compromising Efficiency:** Some transport projects have added rural access components even though it added to the complexity of project design and implementation. For example, a project supports a 20-mile highway extension with 26 connector roads extensions. Similarly, a railway project includes many stations.

**Redefining Poverty:** Some projects needed to use extraordinary criteria to seek PI classification as the national poverty line was too low. Analysis detracted attention from developing the best project designs to reduce poverty.

**Insufficient Demonstration of Impact.** Some investment and policy-based operations had difficulties fully demonstrating poverty impact to meet the classification criteria.

## D. Major Issues

15. From the analysis and consultations conducted so far, including with DMCs (Box 6), a number of issues have arisen during the review of the PRS which require further consideration. During the remainder of the review, ADB will define its position on each of these issues and draw out the implications for the PRS and its implementation.

### Box 6: DMC Perspectives on the PRS

**Framework.** The pillars provide a good overall framework for poverty reduction strategies if interpreted in the relevant cultural context for each country. Capacity Building may be considered as 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. 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, and 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.

16. **Coordination.** The operational cycle proposed in the PRS leading to CSPs (i.e., poverty analysis, high-level forum, and PPAs) has sharpened the poverty focus of ADB's country level operations. However, with the introduction of the poverty reduction strategy paper (PRSP) process, the context in which these processes are applied has changed. To ensure greater development impact and reduce transactions costs, ADB is harmonizing its country-level operations with those of other multilateral and bilateral development agencies. At the heart of this should be the countries' national poverty reduction strategies. ADB's support for the national strategies is contained in the new CSPs as they are being introduced. PPAs played a useful role before national poverty reduction strategies were formulated, and ahead of the adoption of new CSPs. However, their importance is receding in countries where new national poverty reduction strategies and new CSPs have been put in place.

17. ADB will continue to work with other development partners to further coordinate their operational activities to reduce transactions costs for client countries. Such coordination should include country level planning, implementation and monitoring, country analytical work, and monitoring of achievements of MDGs and other poverty related targets at the country level.

18. **Targeted Interventions.** Three types of targeting have been used in ADB operations to sharpen its poverty focus: individual/household targeting, geographical targeting, and sector targeting. Experience shows that targeting at the individual level is operationally difficult and resource intensive. It is not clear if such targeting is optimal for sustainable poverty reduction in most country settings. Individual targeting is effective mostly where there are clearly identified pockets of poverty or groups of chronically poor individuals.

19. Geographical and sector targeting are operationally more cost efficient and effective in enhancing poverty impact of ADB operations. They have resulted in greater policy attention to the development needs of poorer areas. By targeting selected poor areas, ADB has sought to attain synergies across its operations in different sectors. Such activities also reduce transactions costs through common assessments, databases, and monitoring mechanisms. Sector targeting has also helped in increasing resources for sectors that have a direct impact on poverty. This has enabled ADB to advance its policy dialogue on sector level reforms to improve institutional capacities, and rationalize policy frameworks and resource allocation within such sectors.

20. **Lending Target and Project Classification.** Setting of an institutional target for PI projects goes against the grain of country focus that underpins ADB operations. The practice involves a lower institutional priority for projects with indirect impact on poverty.

21. The PI target has diverted attention away from the pillars and crosscutting issues to individually targeted interventions, and encouraged complex project designs. The existing definition of PI is restrictive and includes only those operations that can specifically map the project benefits and count the beneficiaries. Application of the poverty classification system has also been costly, due to its resource intensive methodology. The composition of ADB operations should be based on countries' varying needs. All ADB projects should contribute to poverty reduction in line with a country's national poverty reduction strategy, and should not be led by an ADB-wide target for specific types of project.

22. ADB needs a more effective means of ensuring quality and pro-poor orientation of its operations, going beyond the current reliance on loan classification at approval. Classification of projects by itself does not add to project quality. The poverty classification of projects could be

retained to serve the purpose of tracking the composition and trends of approved operations at country and institutional levels. However, its use at the time of project approval needs reconsideration.

23. **Monitoring and Evaluation.** The PRS lacks a comprehensive framework to monitor its implementation and impact. Such a framework needs to be established to enable monitoring of ADB's efforts (e.g., institutional realignment, financial resources, and knowledge management) and outputs (e.g., poverty orientation of CSPs, and ADB's contribution to the poverty debate in the region). Outcome related indicators should be linked to MDGs and other medium- and long-term targets for economic and social development.

24. Monitoring of poverty impact has been undertaken at the project level. However, this does not fully or efficiently capture ADB's contribution to poverty reduction. There needs to be a focus on the country and sector level, through monitoring of CSPs and sector roadmaps. There is a concurrent need to strengthen the quality assurance process for new operations. Monitoring of inputs, outputs, and outcomes of ADB operations needs to be complemented by evaluation of the results, including independent evaluation, at the country and sector, as well as the project level.

25. **ADB's Capacity to Deliver.** Despite the considerable reinforcement of ADB's human resource base since adoption of the PRS, ADB's staff numbers and skill mix still need further augmentation. Demands on ADB continue to grow. The scope of ADB's activities expanded in the 1990s in response to the growing dimensions of development needs in the region. Quality standards have risen along with more attention to social and environmental consequences. In addition, the demand for ADB's advisory services increased as the importance of governance and institutional capacity came to be recognized. ADB's resource base is not in line with these growing demands.

26. ADB is already efficient in its use of staff. It needs to be more selective in its service delivery to ease the pressure on its resource base. This requires further refinement of structural set-up and business processes, and results-based management of staff and other resources. Higher output quality can only be achieved if the right incentives are in place. Persistent pressure to meet the 40% target for PIs discourages staff from investing time and effort to design poverty-oriented programs and projects, and distracts attention from mainstreaming crosscutting priorities. Creating adequate incentives requires greater operational focus on the achievement of results through establishing more effective quality assurance, and monitoring and evaluation, mechanisms.

27. **Financial Resources.** Implementation of the PRS was based on an assumption that an *"adequate level of concessionary funds would continue to be available to ADB"*. However, in ADF VIII concessional funds have been subject to unanticipated demands. As a result of resumption of operations in Afghanistan and other post-conflict assistance, ADF resources for other borrowers have been significantly reduced. In addition, delayed payments of ADF VIII contributions have adversely affected the level of commitment authority for new lending to poor DMCs. ADB's OCR operations are equally important to support its role in poverty reduction, including financing for sustainable economic growth. In this context, ADB should have access to sufficient levels of concessional and nonconcessional resources to finance the implementation of the PRS across the region.

28. There are constraints on TA funds. In 2001, ADB's Board agreed to finance the gap partially from OCR current income. However, even with trimming TA operations, and

identification of savings, a large financing gap remains. The inflow of dedicated TA funds, including those established in response to the PRS, has eased the funding constraint to some degree. However, reduced flexibility and uncertainties about future funding associated with these funds hamper PRS implementation, which by its very nature requires sustained support over the long term.

29. **Instruments and Modalities.** Only limited progress was made in developing new instruments for financing poverty reduction operations. Staff feedback points to the need for more flexibility in financing policy-based operations and provision of more innovative instruments for poverty reduction projects. To effectively respond to the special needs of the poorest and most vulnerable countries, a sizeable portion of multilateral concessional resources is now allocated on a grant basis. There is a need to revisit available instruments.

30. High cost sharing requirements for borrowing countries have sometimes led to implementation delays of ADB projects due to inadequate counterpart funds. In January 2003, the cost sharing requirements for DMCs were reduced somewhat, especially for Group C countries. A more flexible approach to counterpart funding at the project level would bring ADB's cost-sharing requirements in line with those of other multilateral development banks.

31. **New Global Challenges.** Security and stability are key preconditions for growth and poverty reduction. The demand for emergency assistance has been growing in DMCs. There is increased uncertainty owing to unpredicted events. ADB must have an adequate operational framework and the financial and human resources to respond to the economic and financial consequences of such events. Regional cooperation, by building confidence and trust around joint activities, can reduce tensions and enhance security.

32. Assisting the DMCs in addressing regional public goods (and bads) is a major challenge for the international community. Some aspects of environmental quality and sustainability, control of communicable diseases, law and order, public policy related research and development, information technology, and trade can only be addressed through joint activities between countries. ADB is well placed to play an important role in promoting regional cooperation in close collaboration with other development agencies. Lack of financial resources—for both lending and non-lending projects—and adequate instruments may constrain its ability to do so.

33. The potential benefits of international economic integration have been only partially realized due to barriers to trade and free flow of information and factors of production. Development of an open, rule-based, predictable, nondiscriminatory trading and financial system (as envisioned in MDG 8) is a challenge for the development community. ADB inputs may be important for policy research and trade-facilitation at sub-regional level.