

ASIAN DEVELOPMENT BANK

TAR: STU 34095

**TECHNICAL ASSISTANCE
FOR A STUDY OF
PRO-POOR ECONOMIC GROWTH
AND INSTITUTIONAL CONSTRAINTS ON
POVERTY REDUCTION IN THE
DEVELOPING MEMBER COUNTRIES**

August 2000

ABBREVIATIONS

ADB	–	Asian Development Bank
DMC	–	developing member country
EDRC	–	Economics and Development Resource Center
IWG	–	Interdepartmental Working Group
TA	–	technical assistance

NOTE

In this report, “\$” refers to US dollars.

I. INTRODUCTION

1. A main feature of Asia's success story is the remarkable social transformation and poverty reduction that have accompanied the region's rapid economic growth. Some three decades ago, more than half the region was poor, just two of five adults were literate, and the average person could hope to live only 48 years. At present, the proportion of poor people is down to one third, 70 percent of adults are literate, and life expectancy is up to 65 years. And while the region's population has increased from 1.8 billion to 3.0 billion, the number of poor people has dropped from more than 1 billion to about 900 million.

2. However, because Asia is so vast and heterogeneous, its success story is not equally applicable to all economies. There are large differentials in economic and social progress between and within countries in the region. The contrast between the economies in South Asia and those in East and Southeast Asia is sharp. Even the more dynamic East and Southeast Asia have suffered some setbacks, including increases in transient poverty in the countries hardest hit by the recent Asian financial crisis. While these economies are recovering more briskly than anticipated, more time and effort will be required to reverse the social costs of the crisis.

3. Some countries have, wittingly or unwittingly, adopted more pro-poor economic growth strategies than others, and with remarkable success. What the key policy ingredients are of such growth and what factors, apart from economic growth differences, account for the differential progress in social development and poverty reduction across Asian developing countries, remain challenging questions. These issues will be addressed by this technical assistance (TA) study.¹ The TA framework is in Appendix 1.

II. BACKGROUND AND RATIONALE

4. The extent and seriousness of poverty vary markedly across Asian developing countries. The table on poverty incidence illustrates these sharp differences, using either national or dollar-a-day definitions. For example, using national definitions, poverty incidence ranges from a low of 6 percent in the People's Republic of China to a high of 42 percent in Nepal; or using the international definition, poverty goes from less than 2 percent in Thailand and Kazakhstan to a high of 50.3 percent in Nepal.²

5. Poverty is the outcome not only of economic processes, but also of social and political processes and how these interact with each other. Mediating these interactions is a variety of institutions that are important to understanding poverty and to devising needed policies. Thus, while economic growth is widely recognized to be the principal engine that promotes poverty reduction and improvements in people's living standards, it alone cannot fully explain the intercountry differences in achievements made toward poverty reduction.

6. Accelerating the progress of poverty reduction requires a strategy that, in addition to promoting rapid economic growth, will address other determinants as well, including institutions and policies. For instance, removing institutional and policy constraints can make economic growth pro-poor. The new poverty reduction strategy of the Asian Development Bank (ADB) adopts a comprehensive approach and recognizes this concern: "Since poverty causes and characteristics differ from country to country, the starting point must be a

¹ The TA first appeared in *ADB Business Opportunities* (Internet Edition) in March 2000.

² The two definitions commonly used leave much to be desired. Other definitions, such as that used in the United Nations Development Programme, *Human Development Report 1999*, also show similarly sharp differences in poverty rates across Asian developing countries that cannot be explained by economic growth differentials alone.

comprehensive examination of the constraints and opportunities for poverty reduction in each country.... This will require understanding the nature, intensity, and spread of poverty; the distributional effects of macroeconomic policies; the focus and efficiency of public expenditures; and the effectiveness of government programs and institutions.”³

Poverty Incidence in Selected Developing Member Countries

Developing Member Countries	Poverty Indicator (in % of population)	
	National	\$1/person/day
Nepal	42.0 (1995-1996)	50.3 (1995)
Philippines	40.6 (1994)	26.9 (1994)
Kyrgyz Republic	40.0 (1993)	18.9 (1993)
Sri Lanka	35.3 (1990-1991)	4.0 (1990)
India	35.0 (1994)	47.0 (1994)
Kazakhstan	34.6 (1996)	<2.0 (1993)
Pakistan	34.0 (1991)	11.6 (1991)
Malaysia	15.5 (1989)	4.3 (1995)
Indonesia	15.1 (1990)	7.7 (1996)
Thailand	13.1 (1992)	<2.0 (1992)
China, People's Rep. of	6.0 (1996)	22.2 (1995)

Source: David, I.P., A. Asra, and M. de Castro. 1999. Poverty Incidence in the Asian and Pacific Region: Data Situation and Measurement Issues, EDRC Briefing Note 17:12; based on World Bank, 1999. *World Development Indicators 1999*. Washington, D.C..

7. Institutions are “the humanly devised constraints that structure political, economic, and social interactions.”⁴ Institutions include social networks, gender roles, the legal system, and the state more generally—all of which interact with each other. Institutions are either state or nonstate. State institutions cover many aspects, such as the public provision of basic education and health services, public order and safety, and infrastructure. The nature of governance will determine the availability and quality of these public services and, hence, the extent to which the poor have access to them.

8. Nonstate institutions are social institutions, values, and norms. A key social institution is social capital, which consists of informal norms or established relationships that enable people to pursue objectives and act in concert for common benefit. Social capital is particularly important for the poor. Ethnicity and gender roles, which remain pronounced in Asia and lead to discrimination against minorities and females, are other institutions that underlie poverty and inequality.

9. Thus, apart from economic growth, various institutions and policies can explain why some countries have reduced poverty and inequality faster than others, or why in particular

³ ADB. 1999. *Fighting Poverty in Asia and the Pacific: The Poverty Reduction Strategy*. Manila, p. 15.

⁴ North, Douglass C. 1989. “Institutions and Economic Growth: An Historical Introduction,” *World Development* 17:1319-32.

circumstances poverty and inequality are so difficult to tackle. Institutions and policies influence all three pillars of ADB's poverty reduction strategy: pro-poor, sustainable economic growth; social development; and governance. Analyzing the nature of these institutions and policies will contribute to a deeper understanding of poverty and pro-poor growth, as well as to the formulation of more effective country poverty reduction strategies.

III. THE TECHNICAL ASSISTANCE

A. Objectives

10. This regional TA will support a cross-country comparative analysis of pro-poor growth and poverty reduction constraints to provide a broad analytical underpinning for country-specific poverty analyses and strategies, over the medium to long run. Specifically, the TA study will (i) analyze the extent to which economic growth experiences in selected developing member countries (DMCs) have been pro-poor, anti-poor, or neutral; (ii) identify and analyze institutional and policy constraints on poverty reduction; (iii) distill lessons of experience and best practices; (iv) determine effective strategies to overcome obstacles to poverty reduction and foster pro-poor growth; and (v) recommend specific ways for ADB and other international organizations to assist in reducing poverty in the DMCs. Related ADB poverty studies (ongoing or proposed) are listed in Appendix 2.

B. Scope

11. The study will include an analysis of various DMCs' economic growth experiences to gain a deeper understanding of what constitutes pro-poor growth, as well as of policies and institutions that impede or facilitate poverty reduction in selected DMCs. The analysis will thus also look into such critical issues as governance, public expenditure management, and decentralization to the extent that these are related to institutional constraints on poverty reduction. The study will examine poverty reduction strategies that work and do not work, and how international agencies can be effectively involved in the task of poverty reduction.

12. The study will analyze the experience of selected East and Southeast Asian economies—(tentatively) Republic of Korea; Malaysia; Taipei,China; and Thailand—that have succeeded in pursuing pro-poor growth. For comparison, the study will also analyze the experience of DMCs that have been less successful in achieving pro-poor growth and reducing poverty, such as (tentatively) Bangladesh, Lao People's Democratic Republic, Pakistan, Philippines, and Viet Nam. Apart from differences in economic growth and poverty reduction, these DMCs have varied experiences in the functioning of pertinent institutions and policies. The East Asian economies (Republic Korea and Taipei,China) can be reviewed using available materials, supplemented by interviews with key persons in government, private sector, and civil society. The other DMCs have either completed or ongoing country poverty assessments. The study will use these country assessments along with other available sources supplemented by interviews with key individuals in different sectors.

C. Cost Estimates and Financing Plan

13. The total cost of the TA is estimated at \$610,000. The cost estimates include consulting services, fieldwork, and regional and in-country seminars and workshops. The entire amount will be financed by ADB on a grant basis from the ADB-funded TA Program. Details of the cost estimates are given in Appendix 3.

D. Implementation Arrangements

14. ADB is the Executing Agency of the TA. ADB's Economics and Development Resource Center (EDRC), in collaboration with the programs departments, will be responsible for implementing the TA, with the support of an interdepartmental working group (IWG). The IWG will comprise staff of the programs departments, Strategy and Policy Department (the Poverty Reduction Unit, in particular), agriculture and social sectors departments, Office of Environment and Social Development, Operations Evaluation Office, Office of the General Counsel, and EDRC as chair. The IWG will ensure effective coordination with ADB's concerned departments and offices. Staff of the programs departments will be involved in the country analyses. Moreover, the IWG will attempt to coordinate with poverty reduction activities undertaken by other international organizations, e.g., United Nations agencies, United Nations Development Programme, and World Bank.

15. The study will be carried out in two phases over 9-10 months. The first phase of the study will be the analysis of the experience of the more successful East and Southeast Asian economies, while the second phase will be the analysis of the other DMCs plus the integration of the results of the two phases. An interdisciplinary team of international consultants (12 person-months) with expertise in economic growth and poverty, institutional economics, and social values and norms will help carry out the study. The outline terms of reference for the consultants are given in Appendix 4. The consultants will be selected and engaged as individuals by ADB in accordance with its *Guidelines on the Use of Consultants*.

16. The TA will commence in September 2000 and will be completed by July 2001. An inception workshop will be conducted in October 2000, and a finalization conference will be held in July 2001 in Manila to discuss the findings and recommendations of the TA.

IV. THE PRESIDENT'S DECISION

17. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance, on a grant basis, in an amount not exceeding the equivalent of \$610,000 for the purpose of the Study of Pro-Poor Economic Growth and Institutional Constraints on Poverty Reduction in the Developing Member Countries, and hereby reports such action to the Board.

TECHNICAL ASSISTANCE FRAMEWORK

Design Summary	Performance Targets	Monitoring Mechanisms	Assumptions And Risks
Goal <ul style="list-style-type: none"> • Pro-poor economic growth • Poverty reduction 	<ul style="list-style-type: none"> • Inputs into country-specific poverty analyses and strategies by second quarter of 2001 	<ul style="list-style-type: none"> • Project implementation progress reports 	<ul style="list-style-type: none"> • Poverty reduction constraints are a significant problem • Governments are committed to poverty reduction
Objectives <ul style="list-style-type: none"> • Deeper understanding of pro-poor growth and poverty reduction constraints • More effective approaches to pro-poor growth and poverty reduction 	<ul style="list-style-type: none"> • Identification of elements of pro-poor growth • Identification of constraints on poverty reduction • Identification of required poverty reduction strategies 	<ul style="list-style-type: none"> • Project implementation progress reports 	<ul style="list-style-type: none"> • Availability of country-specific poverty assessments • Availability of other relevant data and information
Outputs <ul style="list-style-type: none"> • Analysis of policies and institutions that act as impediments to, or in some cases, facilitators of, poverty reduction • Examination of poverty reduction strategies that work and do not work • Discussion of how international agencies can be effectively involved in poverty reduction activities • Country analyses and cross-country comparative analysis that provide broad analytical underpinning for country-specific poverty assessments in short to long run. 	<ul style="list-style-type: none"> • Formulation of broad analytical framework for country-specific poverty analyses and strategies 	<ul style="list-style-type: none"> • Project implementation progress reports 	<ul style="list-style-type: none"> • Timetable adhered to • Technical assistance (TA) personnel encountering no disruptions to work flow
Activities <ul style="list-style-type: none"> • TA personnel work as specified in the Terms of Reference (TOR). 	<ul style="list-style-type: none"> • Qualified TA personnel recruited and engaged as scheduled 	<ul style="list-style-type: none"> • Project implementation progress reports 	<ul style="list-style-type: none"> • Qualified TA personnel available for required period

(Reference in text: page 1, para. 3)

LIST OF ONGOING OR PROPOSED POVERTY-RELATED STUDIES IN ADB
(as of May 2000)

Project Name	Office^a	Staff Responsible	Status
1. Poverty Database Buildup in Selected Developing Member Countries (DMCs)	EDSD	D. Maligalig / A. Asra	Approved
2. Intergovernmental Fiscal Transfers for Equitable Growth and Poverty Reduction	EDAN	Y.H. Kim	Approved; consultants being engaged
3. Pro-Poor Economic Growth and Institutional Constraints on Poverty Reduction in DMCS	EDAN	E.M. Pernia	Paper being revised following Staff Review Committee (SRC)
4. Poverty Assessment in Pacific Islands DMCs	OPO	R. Siy	Approved by RETA Screening Committee (RSC)
5. Poverty Reduction: Infrastructure and Governance Dimensions	IWD	T. Duncan	Endorsed by RSC
6. Poverty and the Law: Strengthening Access to Justice	OGC	O. Tiwana	Endorsed by RSC
7. Linking Governance and Poverty Reduction at Economy-Wide Level	SPD	N. Hamid/ Z. Farhadian-Lorie	Submitted to RSC for endorsement
8. Private Sector Participation in Urban Services —Reaching the Poor	AEWU	A. Leung	Draft TA paper circulated for interdepartmental comments
9. Support Facility for Doing Participatory Poverty Analysis and Partnership Agreements	SPD	A. Bauer	Submitted to RSC for endorsement
10. Incorporating Poverty Impacts in Project Economic Analysis	EDEV	M. Fujimura	Staff study in-progress
11. Framework for Measuring Poverty Impacts of Transport Projects	EDEV	N. Rayner	Staff study in-progress
12. Intracountry Regional Disparities in Asia: How to Address the Problems of Poor Regions	EDRC	E.M. Pernia	Planned

^a AEWU – Water Supply, Urban Development and Housing Division East
EDAN – Economic Analysis and Research Division
EDEV – Project Economic Evaluation Division
EDRC – Economics and Development Resource Center
EDSD – Statistics and Data Systems Division
IWD – Infrastructure, Energy and Financial Sectors Department
OGC – Office of the General Counsel
OPO – Office of Pacific Operations
SPD – Strategy and Policy Department

COST ESTIMATES
(**\$**)

Item	Total Cost
1. International Consultants	
a. Remuneration	240,000
b. Travel and Per Diem	40,000
2. Country Activities (domestic resource persons, field work, beneficiary consultations, etc.)	160,000
3. Country Workshops	50,000
4. Asian Development Bank Staff Travel (as resource persons)	20,000
5. Workshops and Conference	20,000
6. Communication, Materials, and Supplies	10,000
7. Publications	20,000
8. Contingencies	50,000
Total	610,000

Source: Staff estimates.

(Reference in text: page 4, para. 13)

OUTLINE TERMS OF REFERENCE

An interdisciplinary team of three international consultants will assist in carrying out the study. The consultants will have expertise in (i) economic growth and poverty, policy and institutions, (ii) institutional economics and governance, and (iii) social programs, values and norms. The main responsibilities of the consultants, under the direction of Bank staff, are described below.

A. Team Leader: Development Economist

This consultant (6 person-months) will be the team leader. The consultant will have had extensive experience in analyzing pro-poor economic growth and related policies and institutions in Asia. The main responsibilities will be the following:

- (i) Review all relevant literature, conduct extensive interviews with Asian Development Bank (ADB) staff, visit selected developing member countries (DMCs), and prepare a background issues paper leading to an appropriate design, including the analytical framework and approaches, for the conduct of the study.
- (ii) Analyze and identify the key elements, including policies and programs, that constitute pro-poor economic growth by, first, diagnosing the experience of the more successful East and Southeast Asian economies.
- (iii) Analyze the experience of other selected DMCs that have been less successful in achieving pro-poor growth and reducing poverty, and identify the main reasons for their lack of success, including the contributions of policies and programs.
- (iv) Analyze all relevant areas of economic policy, including macro, meso, and micro economic policy, and their impact on poverty reduction. This will include monetary, fiscal, trade, industrial, investment, competition, land and property, labor and wage, and price policy. The analysis will attempt to distinguish between implicit and explicit policies and programs.
- (v) Determine the extent to which the strategies, policies, and approaches adopted in the more successful DMCs can be transferred or adapted to the less successful DMCs.
- (vi) Based on the analyses of both successful and less successful strategies, policies, and programs, recommend how ADB and other agencies can best assist DMCs in poverty reduction.
- (vii) Provide advice and guidance to the other consultants in the team, including critically reviewing and commenting on their reports.
- (viii) Prepare a midterm report and an overall report that incorporates the inputs from the other consultants and ADB staff.

(Reference in text: page 4, para. 15)

- (ix) Help finalize all reports for wider dissemination/publication.
- (x) Perform other tasks (including participation in missions, workshops and meetings) that may be required to ensure the successful and timely completion of the study.

B. Expert in Institutional Economics and Governance

This consultant (3 person-months), will have expertise in institutional analysis, governance, public expenditure management, and decentralization in Asia, and will do the following:

- (i) Review all relevant literature, conduct extensive interviews with ADB staff, visit selected DMCs (as required), and assist the team leader in preparing a background issues paper leading to an appropriate design for the study, including the analytical framework and approaches.
- (ii) Analyze the institutions, institutional factors, and policies that have hindered or facilitated pro-poor growth and poverty reduction in both the more successful and less successful DMCs. The institutions to be analyzed will include those pertaining to government, private, and civil organizations, as well as relevant political and economic institutions.
- (iii) Analyze selected DMCs' public expenditures and their impact on pro-poor growth and poverty reduction.
- (iv) Analyze the nature of governance and related policies, programs and measures that have either hindered or facilitated pro-poor growth and poverty reduction in both the more successful and less successful DMCs. Distinguish between implicit and explicit policies and programs.
- (v) Identify ways to rectify institutional factors and policies that constrain pro-poor growth and adapt those that facilitate it.
- (vi) Prepare midterm and final reports based on the analysis and findings, as well as on inputs from the other consultants and ADB staff.
- (vii) Support the team leader.
- (viii) Help finalize all reports for wider dissemination/publication.
- (ix) Perform other tasks that may be required to ensure the successful and timely completion of the study.

C. Sociologist

This consultant (3 person-months) will have expertise in the social programs, values, and norms in Asia, and will do the following:

- (i) Review all relevant literature, conduct extensive interviews with ADB staff, visit selected DMCs (as required), and assist the team leader in preparing a background issues paper leading to an appropriate design for the study, including the analytical framework and approaches.
- (ii) Analyze social programs, values, and norms (including relevant cultural factors) that either hinder or facilitate pro-poor growth and poverty reduction in the more successful and less successful DMCs. Include a specific analysis of key social protection and directed poverty reduction programs in selected DMCs. Distinguish between implicit and explicit policies and programs.
- (iii) Analyze the role, scope, effectiveness, and limitations of social capital and private safety nets.
- (iv) Assist the institutional economics specialist to analyze public expenditures and their impact on pro-poor growth and poverty reduction in selected DMCs.
- (v) Identify ways to modify/deal with social programs values and norms that are constrain pro-poor growth and adapt those that are facilitate it.
- (vi) Prepare midterm and final reports based on the analysis and findings, as well as on inputs from the other consultants and ADB staff.
- (vii) Support the team leader.
- (viii) Help finalize all reports for wider dissemination/publication.
- (ix) Perform other tasks that may be required to ensure the successful and timely completion of the study.