Supporting ADF Countries Achieve Inclusive Growth
### ABBREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
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<tr>
<td>ADF</td>
<td>Asian Development Fund</td>
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<tr>
<td>CAPE</td>
<td>Country Assistance Program Evaluation</td>
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<tr>
<td>CPS</td>
<td>country partnership strategy</td>
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<tr>
<td>CSO</td>
<td>civil society organization</td>
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<td>DMCs</td>
<td>developing member country</td>
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<td>ERD</td>
<td>Economic and Research Department</td>
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<tr>
<td>GDP</td>
<td>gross domestic product</td>
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<td>IED</td>
<td>Independent Evaluation Department</td>
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<td>MDG</td>
<td>Millennium Development Goal</td>
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<tr>
<td>PPP</td>
<td>purchasing power parity</td>
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<tr>
<td>SME</td>
<td>small and medium-sized enterprise</td>
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### NOTE

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

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.
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EXECUTIVE SUMMARY

Asian Development Fund (ADF) countries had slower growth since 1990 than the Asia and Pacific region as a whole and also experienced rising inequality. Consequently they made much slower progress in reducing poverty and achieving the Millennium Development Goals. High levels of inequalities and lack of inclusion weaken the impact of growth on improving social outcomes. Inclusion is also necessary for sustaining growth itself. Promoting inclusive growth is therefore essential.

ADB’s Strategy 2020, therefore emphasizes inclusive growth as part of its strategic agenda to achieve its vision of an Asia and Pacific region free of poverty. It perceives inclusive growth as having three requirements. First, high, sustainable growth is needed to create and expand economic opportunities. Second, broader access to these opportunities is required to ensure that members of society can participate in and benefit from growth. Third, social safety nets must be strengthened to prevent extreme deprivation.

ADB seeks to achieve inclusive growth in its developing member countries (DMCs) through the combined effect of all instruments in its country operations—projects, technical assistance, knowledge products and services, and policy dialogue. These are selected in the country partnership strategies (CPSs) after undertaking thorough country diagnostic studies and rely on their mutual complementarities to maximize inclusive growth. To assess how ADB is operationalizing inclusive growth in ADF countries, 30 CPSs were analyzed in ADF countries for the period 2000–2011. The study revealed that (i) 70% of CPSs—and 86% of those initiated after Strategy 2020 was adopted—emphasize inclusive growth; and (ii) 67% of the CPSs analyzed have results frameworks with clear inclusive growth indicators.

Strategy 2020 has identified specific “drivers of change” and operational areas to implement its strategic agendas. Policies and operational plans have been adopted for each of these, all of which strongly support the inclusive growth agenda of Strategy 2020.

Aggregating projects that promote inclusiveness can provide a partial picture of the overall efforts by ADB’s ADF operations towards inclusive growth. Such projects comprised 51% of the total ADF portfolio by number for ADF IX and 52% for ADF X and are expected to exceed 60% during the ADF XI period. In terms of amounts, such projects comprised roughly 54% in both ADF IX and ADF X and are expected to constitute 57% during ADF XI.

As part of its work to promote inclusive growth, ADB is also taking several measures to strengthen monitoring of inclusive growth in its DMCs as well as in its own operations. Despite efforts on all these fronts, more still needs to be done. ADB is therefore considering the following actions:

i. further improving its monitoring of inclusive growth in its DMCs;
ii. increasing its economic and sector work on inclusive growth;
iii. reviewing its own operations more systematically to ensure that inclusive growth is effectively supported in its country operations by (a) ensuring that henceforth all CPSs in ADF countries will highlight how inclusive growth is supported, and (b) carefully studying Independent Evaluation Department post evaluations of CPSs to see how to further strengthen inclusive growth; and
iv. examining adequate ways to capture its contribution to inclusive growth as part of the comprehensive review of ADB and ADF results frameworks planned in 2012.
I. NEED FOR INCLUSIVE GROWTH IN ASIAN DEVELOPMENT FUND COUNTRIES AND COUNTRY RESPONSES

1. Strong growth coexists in Asia and the Pacific with increasing inequality. The region's rapid economic expansion of about 6% per year \(^1\) since 1990 has helped reduce poverty and improve some social outcomes quite dramatically, but poverty remains a major challenge and progress toward other social outcomes has been slow. The extent of poverty reduction has also varied considerably between countries (Figure 1). Studies indicate that high inequalities will weaken the impact of growth in improving social outcomes. \(^2\) Empirical evidence also suggests that equality of opportunities and outcomes are necessary for sustaining growth itself. \(^3\) Promoting inclusive growth, in which everyone in society participates and benefits, is therefore essential.

![Figure 1: Growth and Poverty Reduction in Asia](image)

ADF = Asian Development Fund, GDP = gross domestic product, Lao PDR = Lao People's Democratic Republic, OCR = ordinary capital resources.


2. Based on the $1.25-a-day standard \(^4\) the number of the region's poor declined from 1.4 billion in 1990 to 754 million in 2008 and the poverty head count ratio fell from 52.3% to 21.9%. \(^5\)

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\(^1\) In per capita and 2005 purchasing power parity (PPP) terms.


\(^4\) The international poverty line which refers to a minimum level of consumption—around $1.25 a day at 2005 ppp — enough to cover certain socially determined needs (Ravallion, M., 2010. Poverty Lines Across the World, World Bank Policy Research Working Paper Series No. 5284. April.)

In countries that borrow from the Asian Development Fund (ADF), however, poverty reduction has been significantly slower, as has economic growth when compared with the rate for the region as a whole. The number of people living in poverty in the ADF countries of the Asian Development Bank (ADB) declined from 175 million to 148 million during 1990–2008. The poverty head count ratio fell from 43.8% to 26.1% in the eight developing member countries (DMCs) that borrow from both the ADF and ADB’s ordinary capital resources. It only declined from 58.0% to 36.8% in the eight ADF-only DMCs. Several ADF countries also continue to suffer an exceptionally high incidence of poverty. These rates are highest in Nepal (52.0%), Bangladesh (44.4%), Lao People’s Democratic Republic (35.1%) and Timor-Leste (42.3%).

3. The progress in ADF countries in reducing the non-income dimensions of poverty has also been unsatisfactory (Figure 2). Only 11 of the 28 ADF countries have achieved or are on track to meet two-thirds of the Millennium Development Goals (MDGs). Half of these DMCs are behind on crucial targets relating to childhood under-nutrition, quality of education (ensuring that students reach the last grade of primary education), gender parity in tertiary education, the MDG health outcomes, sanitation, and carbon dioxide emissions.

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6 ADF countries are those with access to the ADF. These can be disaggregated into (i) “ADF-only” countries; and (ii) “blend” countries, which have access to both the ADF and ADB’s ordinary capital resources. ADB currently has 15 ADF-only countries (Afghanistan, Bhutan, Cambodia, Kiribati, the Kyrgyz Republic, the Lao People’s Democratic Republic (Lao PDR), the Maldives, Nauru, Nepal, Samoa, Solomon Islands, Tajikistan, Tonga, Tuvalu, and Vanuatu); and 13 blend countries (Armenia, Bangladesh, Georgia, the Marshall Islands, the Federated State of Micronesia, Mongolia, Pakistan, Palau, Papua New Guinea, Sri Lanka, Timor-Leste, Uzbekistan, and Viet Nam). Azerbaijan, India, and Myanmar are eligible for ADF assistance under ADB’s Graduation Policy but currently do not have access to ADF. Thus, they are not considered as ADF in this paper.

7 Data is available for 16 ADF countries: Armenia, Bangladesh, Bhutan, Cambodia, Georgia, the Kyrgyz Republic, the Lao PDR, Mongolia, Nepal, Pakistan, Papua New Guinea, Sri Lanka, Tajikistan, Timor-Leste, Uzbekistan and Viet Nam.
Growing inequalities in both income and non-income dimensions can make the task of reducing poverty and achieving the MDGs harder. Seven of the nine ADF countries for which measurable data was available experienced increases in income inequality between the early 1990s and the early 2000s. Armenia and Mongolia were the exceptions. Inequality in access to basic social services such as education and health is exacerbated by income inequality and has also persisted. In some countries, for instance, households in the poorest quintile are almost 3 times more likely than those in the richest quintile to have primary-school-age children out of school. Their child mortality rates are also 2–3 times higher. These inequalities are intrinsically unacceptable, threaten the sustainability of future growth, and weaken its effectiveness in reducing poverty and improving social outcomes. To reduce these inequalities, ADF countries need both to step up their growth and to adopt strategies that ensure that growth is more inclusive.

Recognizing this problem, many ADF countries have emphasized inclusive growth in their medium-term development plans. Nepal is aiming to achieve high, employment-oriented, broad-based economic growth combined with inclusive social development and targeted programs. Bangladesh’s Sixth Five-Year Plan 2011–2015 includes targets for raising income and reducing poverty, developing human resources, providing better water supplies and sanitation, and improving gender equality and empowerment. Cambodia is increasing the emphasis on inclusiveness in its budget expenditure plans. The Seventh National Socio-

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Economic Development Plan, 2011–2015\(^9\) in the Lao People’s Democratic Republic (Lao PDR) allocates 35% of total investment funds to the social sector. Tajikistan’s National Development Strategy for the period to 2015\(^{10}\) focuses on the development of the education and health care systems; improvement of social welfare; expansion of access to water supply, sanitation, housing and municipal services; promotion of gender equality; and environmental sustainability. Pakistan’s Framework for Economic Growth 2011\(^{11}\) aims to maximize opportunities for all citizens and incorporates such inclusive programs as the Benazir Income Support Program, which will provide cash transfers to poor households. The Afghanistan National Development Strategy (2008–2013)\(^{12}\) aims at reducing poverty, improving people’s lives, and creating the foundation for security and stability.

6. The focus of these efforts is on public spending and social investments. Governance and institutional measures that allow greater participation and improved public services for the poor and give them better access to markets and resources to increase their opportunities for gainful employment are also important for ensuring inclusive growth.

II. INCLUSIVE GROWTH AND STRATEGY 2020

7. Strategy 2020, the long-term strategic framework adopted by ADB in 2008, recognized the problem of growing inequality in the region and the high levels of poverty and insufficient progress on the MDGs in ADF countries. To achieve ADB’s vision of an Asia and Pacific region free of poverty, it called for ADB operations during 2008–2020 to focus on inclusive growth as one of three interconnected strategic agendas, along with environmentally sustainable growth and regional integration. Strategy 2020 saw several requirements for achieving inclusive growth:

(i) High, sustainable growth is needed to create and expand economic opportunities, including productive jobs.

(ii) Access to these opportunities needs to be broadened to ensure that members of society can participate in and benefit from growth. This will require expanding human capacities through investments in education, health, and social protection and by improving access to markets and productive assets for the poor.

(iii) Social safety nets must be strengthened to prevent extreme deprivation.

8. Under Strategy 2020, ADB is supporting not only a rapid pace of growth but also a pattern of growth that is inclusive and ensures not only that opportunities expand but that action is also taken to ensure that the poor and the vulnerable are able to access such opportunities and are not left behind. Appendix 1 provides a schematic representation of the pillars of inclusive growth.

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III. TRANSLATING STRATEGY INTO OPERATIONS: HOW ADB HELPS ASIAN DEVELOPMENT FUND COUNTRIES ACHIEVE INCLUSIVE GROWTH

A. Support for Inclusive Growth at Country Level: Country Partnership Strategy Analysis

9. ADB supports its DMCs in achieving inclusive growth and other strategic objectives through its country operations. It makes these efforts in consultation with governments and other development partners at the country level by preparing country partnership strategies (CPSs). Support for inclusive growth is being increasingly emphasized in CPSs as more ADF countries pursue inclusion in their development strategies (para. 5). ADB seeks to use the strong potential linkages that exist between its strategic objectives of inclusive growth, environmentally sustainable growth, and regional integration to maximize their impact whenever possible.13

10. These efforts are made through the combined elements of all ADB's operations in a DMC—projects, technical assistance, knowledge products and services, and policy dialogue. Country diagnostic studies are conducted to help carefully choose and sequence these assistance instruments to maximize ADB’s operational impact in support of the country development strategy adopted in the CPS. Although an individual project or technical assistance or knowledge product can often contribute significantly on its own to goals such as inclusive growth, the right combination of such undertakings can generate a development result that is greater than the sum of its parts.

11. This emphasis on a country program rather than on individual projects was a key strategic choice made after ADB’s 2004 review of its existing Poverty Reduction Strategy and the adoption of the enhanced Poverty Reduction Strategy.14 The review revealed that, when burdened with the addition of components to achieve social outcomes such as poverty reduction, individual projects became more complex and less efficient. They were also harder to implement. ADB found that a more effective alternative was to make projects simple and easy to implement, with the combined package of support in the country program providing the needed complementarities to achieve country objectives.15 For example, when road projects are better connected with rural roads, schools, and health centers, the gains in terms of inclusion are vast. Evaluation studies have also confirmed the importance of project complementarities for strengthening inclusion. A note prepared by ADB’s Independent Evaluation Department (IED) provides some examples (Appendix 2).16

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13 For example, better environmental management sustains the resource base on which most of the poor depend. Building or improving cross-border roads in pursuit of ADB’s regional integration agenda also opens up remote and economically backward border regions in DMCs.


15 Nevertheless, each individual ADB project also seeks to optimize the flow of benefits to the disadvantaged and address any adverse impacts. An initial poverty and social analysis is conducted to determine the scope of poverty and social issues that will need to be addressed during project design. ADB also requires that poverty analysis be conducted during the design of program loans to ascertain the social impact of policy reforms and avoid adverse effects. In addition, ADB’s Safeguard Policy Statement (2009) requires the implementation of social safeguards to avoid and mitigate adverse impacts. These ensure, for example, that those involuntarily displaced by ADB projects are at least as well off or better off than before. Measures are also taken to ensure that indigenous peoples share in project benefits.

16 IED Note “Sharpening the Operational Focus on Inclusive Growth.” October 2011.
12. An assessment of how ADB is operationalizing its inclusive growth strategy in ADF countries must therefore include a close examination of how its CPSs and country programs are seeking to achieve this objective. As highlighted in ADF XI Role and Priorities\textsuperscript{17}, inclusive growth is of paramount importance for all ADF countries. An analysis of the 30 CPSs for ADF countries approved from 2000 to 2011 revealed the following:

(i) **Emphasis on inclusive growth.** Most of the CPSs emphasized inclusive growth, although the degree of emphasis varied. Figure 3 shows the share of CPSs with clear and explicit focus on inclusive growth—i.e., those that used the term “inclusive growth” in setting the pillars of the country strategy or specified economic growth combined with social development and poverty alleviation as a strategic objective. Although only 70% of the CPSs had a clear and explicit focus on inclusive growth over the entire period, 12 of the 14 (86%) prepared after Strategy 2020 was adopted in 2008 focused clearly on inclusive growth.

(ii) **Inclusive growth targets in most results frameworks.** A majority of the CPSs had results frameworks with clear inclusive growth indicators. A CPS results framework that includes clear indicators for inclusive growth indicates a country strategy with a concrete and effective program for achieving it. Sixty-seven percent of CPSs had clear targets for inclusive growth (Figure 4). Indicators included were access to education and health services, availability of rural finance and microfinance, and connectivity of rural areas to markets. Some indicators were disaggregated by gender, poverty, or other measures of deprivation to monitor access to opportunities by such disadvantaged groups.

13. A better understanding of how ADB operationalizes inclusive growth at the country level in ADF countries can be gained by examining an individual CPS in detail. The case of Nepal is discussed in Box 1.

\textsuperscript{17}ADB. 2011. ADF XI Role and Priorities. Discussion paper presented at the first ADF XI replenishment meeting, Manila, Philippines, 8–9 September.
Box 1: Support for Inclusive Growth in Country Partnership Strategies for Nepal

The country partnership strategy (CPS) for 2010–2012 prepared by the Asian Development Bank (ADB) for Nepal mainstreams inclusive growth. The assistance strategy rests on four strategic pillars: (i) broad-based and inclusive economic growth, (ii) inclusive social development, (iii) governance and capacity building, and (iv) climate change adaptation and environmental sustainability. The inclusive growth pillar focuses on infrastructure and skills development to spur income generation. The second pillar addresses access to basic social and financial services, as well as the strengthening of social protection and targeted support for the poor and socially excluded. The third pillar supports local governance to expand participation for the excluded. The CPS results framework also includes a series of indicators to measure inclusive growth.

The CPSs for Nepal have consistently promoted inclusive growth. The previous Country Strategic Program for Nepal (2005–2009) also focused on inclusive growth. A 2009 country assistance program evaluation by ADB’s Independent Evaluation Department assessed ADB’s country strategy in Nepal favorably, noting particularly its contribution to spreading opportunity for the poor and the excluded through rural infrastructure, universal education, rural finance, and agricultural productivity and marketing.

Nepal: Share of Inclusive Growth Projects

The Nepal CPS (2010–2012) includes a substantial pipeline of projects to operationalize inclusive growth. These include projects and programs relating to community irrigation, inclusive financial sector development, road connectivity, and empowerment of women and excluded groups. The figure shows that 62% of projects in Nepal directly contributed to inclusive growth in 2009–2010. These projects are targeted interventions for specific groups or general intervention projects with clear inclusive growth elements. Under ADF XI (2013–2016), 70% of projects in the country are expected to contribute to inclusive growth.

ADB’s support for inclusive growth in Nepal goes beyond loan assistance. Technical assistance, policy dialogue, and partnerships are also key instruments. For example, technical assistance has been proposed to build government capacity for strengthening gender and social inclusion initiatives in developing agriculture, managing natural resources, developing an agricultural sector strategy, strengthening the ability of municipalities to better deliver basic urban services, and fostering institutional reforms to improve local governance.

Policy dialogue with the Planning Commission during preparation of a new national development plan will help strengthen its inclusiveness features. This will include building a more decentralized, participatory, and inclusive socioeconomic development process. ADB will make use of all opportunities for policy dialogue to promote social inclusion that arise during the conduct of its operations. For example, ADB will discuss the strengthening of gender equality and empowerment with relevant government departments and agencies, including the Ministry of Women, Children and Social Welfare, and also consult with women parliamentarians and women’s organizations to bring about needed policy, legal, and regulatory reform.

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b Many indicators are disaggregated by gender, by the socially excluded, and/or by disadvantaged groups.


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Note: The smaller share of targeted intervention projects under ADF XI may reflect incomplete classification.

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Other general interventions projects (GI) considered as inclusive in nature may include any of the following: (i) social protection/safety net interventions consisting of health insurance, pensions, conditional cash transfer projects, crisis interventions with significant social protection components, etc.; (ii) inclusive finance and microfinance interventions—finance projects that support rural banking and other financial services catering to small and medium sized enterprises and microfinance institutions; (iii) projects with gender as theme; and (iv) other inclusive GI projects such as those supporting rural and agricultural development, technical education and skills development.

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f Other strategies and projects include those that support rural and agricultural development, technical education and skills development.
B. Support for Inclusive Growth through Drivers of Change and Sector Operations

14. Strategy 2020 has identified specific drivers of change and core operational areas to implement the strategic agendas of inclusive growth, environmentally sustainable growth, and regional integration. This focuses ADB operations on the areas of most need and where ADB had expertise and comparative advantage. Not every area would necessarily be covered in every DMC. Country strategies adjust the emphasis and mix of sectors and themes to fit the country’s needs. Nevertheless, policies and operational plans have been developed to guide ADB operations in these areas in general so that they can most effectively support ADB’s strategic agendas.

1. Drivers of change

15. Gender equity. Promoting gender equity is a key instrument for achieving inclusive growth because women suffer from exclusion and major deprivations in the region. Achieving gender equality is also one of the major MDGs. In 2008, ADB’s corporate results framework made the mainstreaming of gender equality objectives in 40% of all operations and in 50% of those financed by ADF resources by 2012 a target. By 2010, these targets had been exceeded, with 42% of overall and 53% of ADF-financed public sector operations categorized as gender mainstreamed, compared with 23% overall and 29% of ADF-financed public sector operations in 2007. ADB’s gender-inclusive investments range across all sector operations. In 2010, 100% of education, 75% of agriculture, 73% of water supply and sanitation, 44% of finance, and 31% of transport sector projects explicitly addressed gender equality objectives. In addition to gender mainstreaming in lending operations, ADB carries out gender assessments at regional, country, and sector levels to support policy dialogue and advisory services.18

16. Governance and capacity development. Strategy 2020 recognizes that weak governance prevents DMCs from efficiently exploiting economic opportunities, ensuring that growth benefits the poor and delivering services effectively.19 ADF operations are guided by ADB’s 2006 Second Governance and Anticorruption Action Plan, which emphasizes strengthening public financial management and combating corruption.20 ADF operations also emphasize strengthening public sector performance and participation in achieving inclusive growth.

17. ADB’s support for public financial management has helped maintain fiscal stability, which in turn supports growth. This support has also promoted better prioritization of scarce public resources to increase their impact on poverty and strengthened efficiency in services delivery. Progress on the aggregate country performance assessment indicator on governance and public sector management, which improved from 3.2 in 2005 to 3.5 in 2010, was greatest in public financial management. ADB’s 2003 Information and Communication Technology Strategy has also helped improve inclusive public services delivery, efficiency, and transparency in public administration, and corruption control in ADF countries.21 Examples include distance learning.

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18 For further information on gender, see ADB. 2011. Gender Equality and Women’s Empowerment. Paper prepared for the second ADF XI replenishment meeting, Dhaka, Bangladesh, 5–6 December.

19 The 2011 regional MDG report under preparation finds a strong negative association between health outcomes and corruption. This is also emphasized in the IED paper “Sharpening Operational Focus on Inclusive Growth.” (See footnote 11)


for education and skills building in remote areas, telemedicine for health care in rural areas, agriculture information services for farmers, and disaster warning systems.

18. Decentralization improves service delivery and inclusive growth through greater local engagement, accountability, and participation. Devolution of authority to local governments has fostered more responsiveness to local needs. ADB’s local government finance and governance reform programs in Indonesia and the Philippines supported better public financial management, procurement, and service delivery. ADB also promotes participation by partnering with grassroots civil society organizations (CSOs) that give marginalized communities a voice, providing expertise and knowledge, testing innovative approaches to poverty reduction, improving accountability and governance, and ensuring beneficiary participation. Over 75% of ADB projects include CSO participation.

19. Box 2 provides examples of ADF governance initiatives that have played a significant part in promoting inclusive growth.

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<thead>
<tr>
<th>Box 2: Promoting Inclusive Growth Through Asian Development Fund Support for Good Governance</th>
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<tr>
<td>Developing the capacity of key accountability institutions—such as supreme audit institutions, anticorruption commissions, ombudsmen, and judicial systems—contributes to improvements in the overall governance and anticorruption environment. This in turn improves transparency, accountability, and efficiency in managing public resources and the delivery of public services that the poor rely on. In partnership with Australia, the Asian Development Bank sponsored the Pacific Regional Audit Initiative, which seeks to raise public sector auditing standards across the Pacific. The initiative is working with the 26-member Pacific Association of Supreme Audit Institutions to raise the quality of public auditing to uniformly high standards. The 2008 Nepal Governance Support Programa is the Asian Development Bank's contribution to the multidonor-financed Local Governance and Community Development Program, the government's flagship decentralization reform initiative. It operates at three levels: policy support for selected national level agencies, financial and capacity development support for all district administrations in the country, and support for social mobilization and community development initiatives. Support to district administrations is provided through performance-based block grants, with performance assessed through governance indicators.</td>
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20. Private sector development and private sector operations. Strategy 2020 recognizes private sector development as a key driver of change due to the important role that the region’s private sector plays in growth. The private sector also contributes to achieving inclusive growth and globally agreed development goals such as the MDGs by creating productive employment; providing access to finance to the poor and in deprived regions; increasing standards of living; improving the availability and quality of goods and services such as housing, infrastructure, health, and education; and improving service delivery through public–private partnerships. Taxes paid by companies enable governments to augment revenues and expand basic services.

21. ADB’s private sector operations have contributed to inclusive growth by catalyzing private sector investments in infrastructure and capital markets that are critical for inclusive economic growth, especially in ADF countries. For example, ADB’s Microfinance Risk
Participation Program\textsuperscript{22} seeks to scale up access to microfinance throughout the region and to expand funds available to participating microfinance institutions by 30%. In 2010, the Trade Finance Program\textsuperscript{23} undertook 747 transactions in ADF countries outside India. Infrastructure projects such as the Digicel Mobile Telecommunication Expansion Project in Papua New Guinea\textsuperscript{24}, and the Zvartnots Airport Expansion Project (Phase 2) in Armenia\textsuperscript{25} have extended the reach of telecommunication and transport services to underserved geographical areas in these ADF countries. ADB-supported private sector operations in infrastructure have helped create significant income and employment opportunities for the poor. With ADB assistance, for example, Roshan Cellular Telecommunications in Afghanistan\textsuperscript{26} had reached 23 million customers by 2010 and generated employment for 135,000 vendors of associated products. Efforts are continuing to promote gender equity in private sector operations. Gender-disaggregated data on loan availments will be tracked for some projects in Central Asia. A recent review concluded that ADB’s private equity investments have helped in improving corporate governance and corporate social responsibility, among other benefits. Of 22 countries where private equity funds were invested in 2010, 12 were in ADF countries; of the total 295 investee companies, 48 were in ADF countries.

22. Efforts to expand private sector operations in ADF countries have continued (Table 1). Special efforts have been made to help mobilize private resources tailored to the circumstances in these DMCs and in low-income countries and those in fragile situations in particular. These resources are normally hard to mobilize, given prevailing uncertainties. To expand private sector participation in ADF countries, ADB’s Private Sector Operations Department will explore both new and underserved sectors in ADF countries for possible investments, including opportunities in energy efficiency and renewable energy. The department will also seek additional financing opportunities involving small- and medium-sized enterprises (SMEs).

\textsuperscript{22} ADB. 2010. \textit{Regional: Proposed Microfinance Risk Participation Program}. Manila.
\textsuperscript{23} ADB. 2009. \textit{Major Change in Scope and Amount: Regional Trade Finance Facilitation Program}. Manila.
\textsuperscript{25} ADB. 2010. \textit{Proposed Loan to Zvartnots Airport Expansion Project (Phase 2) (Armenia)}. Manila.
Table 1: First Private Sector Operations in Asian Development Fund Countries

<table>
<thead>
<tr>
<th>Year of First Project or Investment</th>
<th>Country/Countries</th>
<th>Project Name</th>
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<tbody>
<tr>
<td>2004</td>
<td>Afghanistan</td>
<td>Afghanistan International Bank</td>
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<tr>
<td>2005</td>
<td>Lao PDR</td>
<td>GMS Nam Theun 2 Hydroelectric Project</td>
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<tr>
<td>2006</td>
<td>Azerbaijan</td>
<td>Private Banks and Leasing Companies in Azerbaijan</td>
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<tr>
<td>2007</td>
<td>Cambodia, Georgia, Maldives</td>
<td>CPTL Power Transmission Project</td>
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<tr>
<td>2009</td>
<td>Papua New Guinea</td>
<td>DIGICEL Mobile Telecommunication Expansion Project</td>
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<td>2010</td>
<td>Armenia a</td>
<td>Zvartnots Airport Expansion Project (Phase 2)</td>
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CPTL = Cambodia Power Transmission Lines, GMS = Greater Mekong Subregion, Lao PDR = Lao People’s Democratic Republic, SME = small and medium enterprise.

a First infrastructure project.

Source: Asian Development Bank Private Sector Operations Department.

2. Sector Operations

23. Infrastructure. The bulk of ADB’s lending and technical assistance operations supports investments in infrastructure and effective infrastructure services. These activities help expand a country’s productive capacity, provide basic services, and ensure economic and social connectivity, which contributes to inclusive growth. ADB also pays special attention to making sure that infrastructure operations promote inclusiveness in the ADF countries and all of its DMCs.

(i) Water and sanitation. These projects are directly inclusive in nature because they improve health and education outcomes and support attainment of the relevant MDGs on access to safe drinking water and basic sanitation. ADB’s Water Operational Plan 2011–2020 recognizes the link of water and sanitation to health, education, and equity. The plan specifically targets the poor and vulnerable. In 2010, ADB approved support for 11 stand-alone water projects and multisector projects with water as a major component in ADF countries to provide clean water and improved sanitation to more than 10 million people. ADB plans to scale up its ADF water and sanitation interventions substantially. Lending for projects under ADF XI are expected to total $3.2 billion, or about 25% of the total, compared with $1.8 billion, or 15% under ADF X.

(ii) Transport. Transport projects can significantly benefit the poor by expanding affordable access to better income, basic health, and education opportunities. Under ADF XI, ADB will align its transport sector work with its 2010 Sustainable Transport Initiative Operational Plan. Investments in poorer regions will be emphasized, with an increased focus on rural road construction and maintenance and comprehensive traffic safety measures. Labor-intensive construction methods will be adopted to generate local jobs during road construction, when


feasible. To support social sustainability, ADB will expand its work on the pro-poor dimensions of transport. This will include improving rural bus services and nonmotorized transport. ADB will also step up its support in the sector for gender mainstreaming and participation by women, reducing the threats of HIV/AIDS and human trafficking, guaranteeing core labor standards, and the use of tariff and subsidy options to optimize the balance between access and affordability in transport systems.

(iii) **Inclusive urban infrastructure.** These projects assist inclusive growth by providing basic services for the urban poor. ADB’s proposed urban operational plan focuses on promoting green, inclusive, and competitive cities. The inclusive cities agenda will be one of the three core pillars of ADB’s future urban operations and knowledge material is being prepared to improve inclusiveness in urban projects. This includes a book launched in September 2011, *Inclusive Cities*, and a tool kit for inclusive city assessments. In 2003, ADB approved Indonesia Neighborhood Upgrading and Shelter Sector Development Project, which benefited an estimated 2.1 million poor people, and the Development of the Poor Urban Communities Sector Project in the Philippines. In 2009, ADB also established the Urban Financing Partnership Facility with $75 million in grants and guarantees from the Swedish International Development Cooperation Agency for viability gap funding of pro-poor projects.

(iv) **Energy.** Providing access to energy contributes to the realization of all the MDGs by raising incomes and improving health, education, the availability of clean water and sanitation, and food security. In support of Strategy 2020, ADB’s 2009 Energy Policy addresses the essential role played by energy in reducing poverty and achieving inclusive growth. Electrification rates remain well below 50% in many ADF countries, including Afghanistan (16%), Bangladesh (41%), Cambodia (24%), Nepal (44%), Papua New Guinea (10%), and Timor-Leste (22%). ADB invested more than $1.85 billion in energy during 2008–2010, including $433 million in support to its ADF DMCs. This overall investment will provide nearly 2.3 million households with access to electricity or modern fuels. During ADF XI, ADB will support inclusive energy access through investments in rural electrification, development of local and provincial grids, decentralized renewable energy, among other areas, as well as technical assistance for public–private partnerships to reduce costs and lower risks in energy investments.

24. Box 3 provides details on some of the ADF infrastructure projects that are contributing to inclusive growth.

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32 ADB evaluation studies of two rural electrification projects in Bhutan found that electrified households enjoy a better quality of life and economic, social, and environment outcomes. A survey of SMEs in Pakistan found that nearly 800 million people in Asia still have no access to electricity.
Box 3: Examples of Contributions to Inclusive Growth by Asian Development Fund Infrastructure Projects

The $35 million Cambodia Rural Roads Improvement Project approved by the Asian Development Bank (ADB) in 2010 will help improve Cambodia’s rural road network by paving 505.4 kilometers of rural roads in seven provinces located around the Tonle Sap Basin.\(^a\) The project will ensure that local residents get priority in road construction work and that men and women receive equal pay for equal work. The project will provide better access to markets, jobs, and social services in the seven surrounding project provinces. Poor people and women and children living within the Tonle Sap Basin will be given access to safe, cost-effective, all-season roads. The road improvements will also reduce dust and respiratory diseases, a major cause of child mortality. Potential negative social impacts will be mitigated through HIV/AIDS and human trafficking prevention programs.

The Issyk-Kul area in Kyrgyzstan has a high poverty level with 9% of the population considered extremely poor. More than 123,000 people will gain onsite sanitation and another 45,000 will be connected to the sewerage system under the Issyk-Kul Sustainable Development Project approved by ADB in 2009.\(^b\) The region’s women will particularly benefit through a reduction of waterborne diseases and improvement in dignity afforded by access to improved sanitation.

The Nepal Secondary Towns Integrated Urban Environmental Improvement Project approved by ADB in 2010 will help provide improved basic municipal services. Community development programs will be implemented in poorer municipal areas.\(^c\) The programs will increase awareness of health and hygiene; encourage households and communities to reduce, reuse, and recycle; develop the skills of women, the vulnerable, and the poor; and invest in small-scale facilities such as public schools, and community toilets and communal water taps. The project will be directed mainly at people with no access to proper sanitation. By addressing issues of gender, caste, and ethnic-based discrimination, the project will promote social inclusion for women and vulnerable groups. The project will give women health benefits from environmental improvements, access to improved sanitation, access to clean water, more participation in decision making related to municipal services, and savings in time and health expenditures.

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25. **Financial sector development.** Facilitating access to finance can be critical to helping households escape poverty. ADB’s 2011 Financial Sector Operational Plan emphasizes provision of inclusive finance to promote inclusive growth\(^34\). The aim is to support access by households to microfinance, mobile banking, and housing finance and to expand financing for SMEs. Box 4 provides details of some typical financial inclusion projects in ADF countries.

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Box 4: Asian Development Fund support for inclusive growth through micro-finance

The Tajikistan Microfinance Systems Development Program, approved by the Asian Development Bank (ADB) in 2003 comprised a loan of $8.00 million from the Asian Development Fund (ADF) and a $0.64 million technical assistance grant. Validating the project completion report in 2010, ADB’s Independent Evaluation Department confirmed a rating of highly successful for the project. The project helped establish a thriving microfinance industry in Tajikistan with the transformation of over 50 nongovernment organizations into licensed microfinance institutions and relending of funds to 14 microfinance institutions for onlending to more than 5,500 clients. Rural areas received 80% of the loans. The repayment rate was over 97%.

A $13 million ADF loan was approved in 2010 for the Papua New Guinea Microfinance Expansion Project, which was cofinanced with a $6 million grant provided by the Government of Australia. This project will extend and build on the lessons learned from a 2000 ADF microfinance project also cofinanced by the Australian Agency for International Development. The new project will help establish a microfinance-specific regulatory framework; strengthen the central bank’s capacity to supervise the microfinance industry and the capacity of participating financial institutions; improve the monitoring of the microfinance industry; undertake a financial literacy training program for 120,000 clients of participating financial institutions, at least 40% of whom are to be women; support business development skills training for 22,000 clients (over 20% women); and establish a risk-sharing facility to help increase lending to micro and small enterprises. The new project will make financial services more accessible to people in rural areas.

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26. **Education.** Providing quality education to disadvantaged households helps give them access to opportunities and promotes inclusive growth. In 2010, ADB prepared Education by 2020: A Sector Operations Plan. It makes inclusive education a sector-wide priority to fill a crucial need in DMCs where inequality in access to all levels of education is pervasive. ADB operations promote not only physical inclusion in education but also pedagogical inclusion, i.e., provision of equal access for all to good quality education and learning opportunities.

27. ADB has adopted strategies that go beyond simply expanding education systems to reach the excluded. It also seeks to adapt these systems to the circumstances of excluded groups. ADB’s support for inclusion in education includes assistance in policy and strategy formulation, education sector planning, budget preparation, and resource allocation. Support for strengthening inclusiveness and the quality of basic and secondary education remains a high priority. ADB is also emphasizing equitable access and inclusiveness in technical and vocational education, skills development, and tertiary/higher education. A total of $1.9 billion has been earmarked for 43 education projects in ADF countries during 2009–2014. This represents 59% of ADB’s total education portfolio for this period.

28. Box 5 provides examples of ADF projects that promote access to education.

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The Lower Secondary Education Project for the Most Disadvantaged Regions in Viet Nam\(^a\) was approved by the Asian Development Bank (ADB) in 2007 to support the country’s Secondary Education Sector Master Plan. The project focused on the most disadvantaged groups, particularly ethnic minorities and girls (totaling about 700,000 children) in 103 of the poorest districts in 17 provinces of Viet Nam. It provided targeted scholarships and pilot-tests innovative initiatives to include the hardest-to-reach groups, including school feeding and awareness-raising programs.

ADB’s Third Primary Education Development Project in Bangladesh\(^b\), approved in 2011, will expand support to the country’s sector-wide development agenda in primary education. To be implemented by ADB jointly with the government and 10 development partners, the program will support government efforts to achieve the millennium development goals and national Education for All targets. The program aims particularly at providing quality primary education to all eligible children in Bangladesh, especially girls and children from disadvantaged groups. The program pursues specific interventions for improving inclusiveness, including curriculum and education materials that give due consideration to cultural and ethnic diversity and gender and disability factors. It will also implement action plans for improving access for children from tribal communities, vulnerable groups, and girls.

The Cambodia Strengthening Technical and Vocational Education and Training Project\(^c\), approved by ADB in 2009, supports government strategies to reduce poverty and achieve socioeconomic development for all. These strategies include (i) promotion of vocational and skills training to ensure continuing improvement in national productivity; (ii) creation of jobs in the formal and informal sectors; (iii) increasing agricultural productivity to create jobs in rural areas; and (iv) the establishment of technical vocational education and training networks to help both men and women respond to labor market needs, especially the poor, the disabled, and the vulnerable. The project will create two new provincial training centers in the poorest provinces where a high proportion of the population are members of ethnic minorities. The project will pay special attention to women’s training.

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29. **Health.** Poor health outcomes are a major concern in the region and prevent poor households from accessing opportunities provided by economic growth. Strategy 2020 calls for selective health interventions by ADB, such as the mainstreaming of health promotion activities in infrastructure projects, improving public expenditure management for health, and mitigation of cross-border health issues. ADB’s 2008 Operational Plan for Health recognizes the multifaceted impacts of health on development and inclusive growth and outlines an expansion in ADB actions on health matters, in line with Strategy 2020 and in accordance with ADB’s comparative advantage\(^{36}\). The plan encourages financing of health sector projects in ADF countries. It also prioritizes the mainstreaming of health interventions in other sectors, particularly infrastructure; attention to health sector needs in governance and public expenditure management programs; and support for health-related regional and global public goods through knowledge activities and partnerships with regional and global actors.

30. In ADF countries, ADB health sector projects have emphasized attainment of the MDGs for reductions in infant, child and maternal mortality by strengthening health systems and extending primary health care outreach to target groups. The sector’s share of projects in

overall lending and technical assistance peaked in 2010 at approximately 2.4% of total ADB operations. Box 6 provides details on examples of ADB and ADF health interventions.

**Box 6: Asian Development Fund support to inclusive growth through health interventions**

In line with Strategy 2020 of the Asian Development Bank (ADB), ADB’s communities of practice are attempting to increase health impacts from infrastructure projects. For example, ADB is supporting road safety audits and policy development and capacity building to improve road traffic safety under its Sustainable Transport Initiative. To prevent communicable disease outbreaks and to improve health, ADB is working with World Health Organization and Australian Agency for International Development on guidelines for mainstreaming water safety plans in water systems and in promoting hygiene. To mitigate the risks of HIV/AIDS posed by growing human migration and commercial trade on transport corridors, ADB has a growing portfolio of HIV/AIDS prevention efforts targeted at those most at risk. It also supports studies on the impact of HIV/AIDS on economies, gender, and poverty to support evidence-based policy dialogue.

The Health Sector Development Program in the Lao People’s Democratic Republic approved by ADB in 2009 is a good example of an intervention supporting improved public expenditure management in the health sector. The program helps fill a critical gap in the country’s budgetary resources until 2020. The revenues available for health spending are expected to expand after 2020, partly due to the Nam Theun 2 Hydropower Project. The program outputs are (i) strengthened national and local health planning and financing, (ii) increased access to maternal, neonatal, and child health services, and (iii) improved quality of human resources for health. The program also provides support to provincial budgets.

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31. **Food Security.** Hunger and under-nutrition remain major challenges in the region, despite its rapid economic growth. They have been compounded by the increase in food prices since 2007. Strategy 2020 highlights the importance of agriculture and food security to achieving inclusive growth. ADF countries, which suffer from high levels of food and nutrition insecurity, are particularly vulnerable to rising and volatile food prices. ADB’s food security investments in ADF countries have been addressing the critical supply-side bottlenecks in the food value chain that many smallholder farmers face. These include (i) stagnant productivity, (ii) poor connectivity of farms to markets and essential services; and (iii) lack of resilience to climate change impacts, rising food prices, and economic shocks.

32. Under ADF XI, food security operations will be guided by ADB’s 2009 Operational Plan for Sustainable Food Security, which aims to improve availability and access to adequate safe food in a sustainable manner, especially for the poor, women, and other vulnerable groups. Focusing on small farmers, the plan addresses three areas—productivity, connectivity, and resilience. It adopts a multisector approach. Development of irrigation, improved water and natural resources management, and enhanced access to financial services will address productivity constraints. Investments in transport, trade facilitation, and promotion of rural SMEs will improve connectivity. Investments in disaster management (e.g., flood dikes), nutrition, and vocational training will address resilience constraints. Box 7 provides two typical project examples.

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Box 7: ADF support for inclusive growth through support for food security

The $40 million Bangladesh Second Crop Diversification Project approved by the Asian Development Bank (ADB) in 2010 will develop high-value crops in 27 poor and climate-vulnerable districts. The project will enhance the productivity and resilience of food production systems by providing farmers with the latest environmentally sustainable technologies for high-value crop production and value addition; pilot-testing climate-resilient varieties of crops; and investing in postharvest infrastructure and cold storage facilities. The project will promote social inclusiveness, particularly of women and ethnic minorities, by providing economic opportunities for marginal, small- and medium-scale farmers, as well as generating employment opportunities for landless people.

ADB’s Chittagong Hill Tracts Rural Development Project, approved in 2000, and the Second Chittagong Hill Tracts Rural Development Project approved in 2011 are other examples of ADB support for rural development and food security. The projects help increase productivity and value addition of food production systems in poor ethnic minority communities in Bangladesh by improving irrigation and rural infrastructure, introducing on-farm and off-farm technologies, expanding microfinance, and supporting small-scale community development activities. They will also expand access to clean water and primary education.

33. Social Protection. Strategy 2020 identifies social protection as an important requirement for inclusive growth. ADB is therefore putting renewed emphasis on its 2001 Social Protection Strategy, which aimed at reducing the risks that the vulnerable face by providing them with income security, services, and opportunities. ADB is supporting such special measures as extending pensions and health protection coverage that are necessary to mitigate particular vulnerabilities of women due their extended longevity when compared with men and the reproductive health risks and burdens they face. The Social Protection Strategy also seeks to facilitate employment, promote the efficient operation of labor markets, and address social protection in the informal sector.

34. ADB has supported social protection interventions through-stand-alone social protection loans or as components of loans. The share of social protection interventions rose sharply during the 1997–1998 Asian financial crisis and again in 2008–2010 due to pressure from rising or volatile food and fuel prices and the global financial and economic crisis. In 2010, ADB approved program loans in Bangladesh and Cambodia for securing and expanding social safety net programs (Box 8). ADB has also provided technical assistance for strengthening social protection. ADB has significant social protection activities in its current portfolio and in its pipeline.

Box 8: ADF support for inclusive growth by expanding social safety nets

The Economic Crisis and Social Safety Net Program approved by the Asian Development Bank (ADB) for Bangladesh in 2009 was designed to offset the impact of the effects of the global economic crisis.\textsuperscript{a} Government social safety net programs were insufficient and spending on them was equivalent to less than 1% of gross domestic product. The ADF loan of $144.85 million for the project was to help the government expand the program coverage to vulnerable people and women. Social safety nets are provided through food assistance, feeding programs, and employment creation. Some of the beneficiaries of the employment generation program under the ADB project were too poor to obtain their necessary calorific food intake. Gender budgeting guidelines were also to be implemented in 33 line ministries to ensure transparency in expenditure for women’s development.

ADB’s project to expand the social safety net during a food crisis in Cambodia approved in 2008 aimed to mitigate the combined effects of overall inflation and rising food and fuel prices during in 2007–2008 on the poor and vulnerable.\textsuperscript{b} The ADF loan of $17.5 million provided immediate food security to an estimated 500,000 poor and vulnerable people. Poor families living in several provinces around Tonle Sap Lake benefited from programs for free rice and food distribution; food-for-work; and school feeding for poor children in early childhood learning centers and primary schools.


\textsuperscript{b} ADB. 2008. \textit{Proposed Loan and Asian Development Fund Grant Kingdom of Cambodia: Emergency Food Assistance Project. Manila.}

C. Projects Supporting Inclusiveness in ADF Operations

35. ADF operations support inclusive growth through projects chosen on the basis of how they address the critical constraints to inclusive growth unique to each country, as well as by relying on complementarities between projects to maximize their overall impact on inclusive growth. This approach include projects that primarily support economic growth, projects that support social inclusion (or inclusiveness) directly, and projects that do both. ADB and the ADF specifically, also foster inclusiveness by addressing the drivers of change under Strategy 2020 (paras. 15–22) and through ADB’s core areas of operations (paras. 23–34). Aggregating projects that promote inclusiveness in all the ADF countries can provide a partial picture of the overall effort by ADB’s ADF operations to make growth inclusive. The picture will be only partial because economic growth projects that do not support social inclusion directly can nevertheless make growth more inclusive indirectly by expanding socioeconomic opportunities overall in ways that help the poor and the excluded find employment, generate income, and gain access to education and health services. Utilizing ADB’s existing classification system, a count of projects that have supported inclusiveness may be obtained by including all targeted intervention projects with those general intervention projects that also supported inclusiveness, such as projects involving rural infrastructure, microfinance and SMEs, skills development, social protection, and safety nets (Appendix 4). Accounting for all such projects, the picture that emerges for ADF IX, X, and XI is presented in Figure 5.
36. Figure 5 shows that about 51% of 197 projects in the ADF IX period supported inclusive growth, this increased to 52% of 269 projects under ADF X. This share is expected to increase to over 60% in the ADF XI period. In terms of amounts, the corresponding shares are roughly 54% under ADF IX and X, and 57% under ADF XI (Figure 6). Appendix 4 provides details.
IV. MONITORING INCLUSIVE GROWTH IN DEVELOPING MEMBER COUNTRIES AND ADB OPERATIONS

A. Country Level Monitoring

37. Measuring progress on inclusive growth is best done at the country level (paras. 9–13). Monitoring is required to determine whether a country’s growth has been inclusive or not and also to determine whether ADB’s overall country program in its CPSs has supported the country’s inclusive growth efforts. The latter may be done at the design stage of a CPS as well as at the CPS review or evaluation stages.

38. ADB’s Economics and Research Department (ERD) is developing a system for monitoring a country’s progress in inclusive growth. A set of appropriate indicators is being identified that will reflect progress on inclusive growth in a country and corresponding database needs will be developed. A preliminary choice of indicators is in Appendix 5. When finalized, the system will enable ADB to provide valuable information to countries on their progress in strengthening inclusive growth.

39. Monitoring ADB’s own performance on inclusive growth is equally crucial. ADB introduced a system in 2004 that was based on CPS results frameworks to facilitate such monitoring. Each CPS has a results framework with a hierarchy of levels. It includes target outcomes with outputs and activities to support them, as well as monitorable indicators against which the performance of the CPS and its stated strategic areas of emphasis in a country’s development effort can be both monitored and assessed. The analysis presented in para. 13 is an example of CPS assessments of inclusive growth on an ex ante basis. CPS completion reports and IED’s CAPEs are examples of how CPSs can be assessed ex-post on their objectives, including that of promoting inclusive growth. These reports on post-2008 CPSs will be available from 2012 onward and will enable an assessment of ADB’s support to inclusive growth.

B. Corporate Monitoring

40. Strategy 2020 includes a corporate results framework to assess ADB’s progress on its strategic objectives. A similar but separate results framework also exists for ADF countries. Assessment is conducted through the annual Development Effectiveness Review. Inclusive growth indicators are reflected in Level I of the results frameworks. It includes several indicators. Some relate to growth and basic infrastructure creation, including indicators related to fostering an environment conducive to private sector development. This enables an assessment of growth and expansion of opportunities. MDG indicators on income poverty, improvements in education and health (including access to water and sanitation), and gender equality provide an assessment of progress in enabling access to opportunities. Further improvements to the Level I indicator set are being explored to better capture progress toward inclusive growth outcomes.

41. The Development Effectiveness Review also discusses how ADB has contributed to inclusive growth during the year but no specific indicators are provided to assess progress more rigorously. ADB is working to develop suitable measures.

39 Choice of these indicators has been predicated on data availability. Presentation of more complete information on access by the poor to services and the quality of these services can be gauged through more disaggregated data when available.
V. FUTURE ADB PLANS TO STRENGTHEN INCLUSIVE GROWTH

42. ADB has increased its support for inclusive growth in ADF countries but sees considerable room for improvement. It will intensify its efforts in a number of ways, including the following:

(i) ADB will further improve its monitoring of inclusive growth in its DMCs. ERD is developing a set of indicators and will use it to assess country performance on inclusive growth more rigorously (para. 38). Most DMCs, including the ADF countries, have adopted inclusive growth strategies but whether they are resulting in more inclusive growth remains to be seen. ADB’s monitoring system will help provide a clear answer and valuable feedback for these countries.

(ii) ADB will increase and strengthen its economic and sector work to better understand how inclusive growth can be achieved in the DMCs as well as how inclusive growth is linked to ADB’s other strategic concerns.

(iii) ADB will review its own operations more systematically to ensure that inclusive growth is effectively supported in its country operations. Since Strategy 2020 was adopted in 2008, most of ADB’s country operations, including those in ADF countries, have begun emphasizing its strategic agendas in country strategies but ADB will ensure that inclusive growth will henceforth be emphasized in all CPSs for ADF countries. Because many CPSs will soon be nearing completion, ADB will carefully study the final reviews of these strategies and the CAPEs conducted by IED to see how it can further strengthen inclusive growth in the implementation of its country operations.

(iv) ADB will examine ways to adequately capture ADB’s contribution to inclusive growth as part of the comprehensive review of ADB and ADF results frameworks planned in 2012.
POLICY PILLARS OF INCLUSIVE GROWTH

Inclusive Growth

High, efficient, and sustained growth to create productive jobs and economic opportunity

Social inclusion to ensure equal access to economic opportunity
- Investing in education, health, and other social services to expand human capacity
- Eliminating market and institutional failures and social exclusion to level the playing field

Social safety nets to mitigate the effects of transitory livelihood shocks and to prevent extreme poverty

Good Governance and Institutions

Sharpening the Operational Focus on Inclusive Growth

Reducing poverty is a universal goal. But countries are also finding that it is not enough to reduce poverty, and that growing inequality—of opportunities and in outcomes—can make growth socially and politically unsustainable. In the face of increasingly tight resource constraints, it is becoming harder to maintain high growth rates unless it is environmentally and socially sustainable, and it originates broadly, from across the human resource base.

In Asia, there is heightened interest in the inclusiveness of the growth process. But that interest needs to be matched by a sharper operational focus—in countries and at the Asian Development Bank—on how better results can be promoted.

Main distinctions

Inclusive growth—or economic growth that is widely shared—would generally also be pro-poor. That said, if growth is very slow, inclusiveness would not be sufficient for it to be pro-poor. When poverty reduction is significant, economic growth is considered pro-poor. But even when growth is pro-poor, inequality may worsen, for example, as measured by the rising Gini coefficients of Asia’s recent experience, as illustrated by one example of the People’s Republic of China (Figure 1).

The quality of life also hinges on non-income attributes, in which a lack of inclusiveness in factors such as education, health, and equitable access to work and markets detract from growth’s pro-poor qualities. The goal would therefore be to make growth and development (i.e., including the non-income dimensions) as inclusive as possible.

Sustained growth helps expand economic opportunities to work and add value. Asia has had success with policies and investments for growth, for example, in improvements in market conditions or infrastructure investments. In parallel, investments in capabilities and assets—including improvements in labor markets—
broaden access to opportunities. This is where countries in the region have lagged. Furthermore, social safety nets are needed to mitigate risks and vulnerabilities, especially for the disadvantaged and poor.

**Key levers of growth**

Policy direction should therefore increasingly aim to generate and sustain growth through the participation of all people, especially the lower income levels of society. Experience suggests several avenues within differing country contexts to expand opportunity, broaden access, and ensure social protection. Because these avenues are interlinked, the findings below are not segmented by their primary attributes.

**First**, capitalizing on complementarities matters for inclusion.

For example, a 2006 evaluation of rural roads showed that the poor face basic deficiencies in their assets, making it difficult to take advantage of these roads (Hettige, 2006). Another study found that transport and energy investments were less likely to benefit the very poor without complementary investments (ADB, DFID, JIBC, and WB, 2005).

In a number of Asian countries, meanwhile, rural electrification has had little impact on agricultural productivity due to high connection costs, unclear land use rights, and restricted access to credit (Songco, 2002). And in Bhutan, the use of electricity for income-generation has been limited by an absence of investments in access roads, market development, irrigation systems, and skills (IED, 2010).

Similarly, research in Viet Nam identified links between education outcomes and returns to irrigation, especially for the poorest (Van de Walle, 2000) while another study concluded that the success of irrigation projects generally depended on employment multiplier effects (Bhattarai et al., 2002).

These examples make the case for multi-pronged approaches and a cluster of complementary activities. This does not call for projects to have multiple features, but rather, for efforts to link complementary elements. For example, a rural road project needs to be connected with investments in post-harvest infrastructure, education and health facilities, or environmental services.

**Second**, it pays to change market constraints that put the poorer segments of society at a disadvantage.

Many poor people are self-employed, while casual laborers working in segmented labor markets usually operate in conditions offering very little legal and regulatory protection. Their wages grow slower than the wages of the non-poor and also tend to be much lower than in organized sectors.

Properly designed public programs help generate employment for the poor. Successful programs tend to have market-aligned wages and focus on building public assets that improve labor productivity (Subbarao, 1997; del Ninno et al., 2009; Papadimitriou, 2008).

But implementation of such programs is challenging. In India, the use of federal resources for the employment guarantee scheme, for example, was particularly low in poorer states (Chakraborty, 2007).

For the self-employed poor, access to resources—particularly finance—is vital. ADB and donors have supported microfinance, but with limited success in providing access to the poor (ECG, 2010). This could be due to an excessive focus on private initiatives, rather than on incentives and regulation. An evaluation for the Philippines also showed that it is not realistic to reach large numbers of the very poor with microfinance alone. The study suggested that it is useful to include a gender action plan in the design of such projects (ADB, 2006).

Highly uneven growth across regions has also contributed to greater inequality (ADB, 2007). Support to create conducive conditions for the development of poorer regions, including rural areas, as well as for engaging with governments to enhance transfers and public investments in fiscal systems in favor of poorer regions, could help rebalance growth. Confronting tough issues of land reforms and tenancy rights could make growth inclusive in rural areas.

**Third**, greater effort is needed for investing in people and assets that especially enhance the capabilities of the poor.

Both the quantity and quality of these investments are vital. School attendance rates may have risen substantially in recent years, but
they say nothing about the vast differences in quality of education.

Of central importance is improving governance in service delivery. Weak governance in public institutions hurts the poor the most. Yet, simply building social facilities does not guarantee their usefulness, particularly to the poor, due to poor governance and quality standards (Abdul Latif Jameel Poverty Action Lab, 2009). At times, inclusion is hindered by the poor quality of public sector service delivery, particularly to the remote areas.

Social safety nets are also part of inclusive growth approaches. Middle income countries have made some progress in this area, but there is also growing need for well-targeted and sustainable social safety nets in low income countries. These need to be put in place during relatively stable economic times, so that they can operate without the large start-up costs that arise in times of crisis.

Tracking operations

It would be important to assess how operations feature attributes of inclusive growth. Three relevant dimensions are: Do the projects aim at the lower income levels beyond the average? Do they increase the ability of the poorer segments to access opportunities? Are these results monitored and evaluated?

Income poverty line based analysis needs to be supplemented by measures of inclusion, and the metrics for measurement need to be strengthened (Ali and Son, 2007; Zhuang, 2010; IEG, 2011; Kanbur and Rauniyar, 2010; and Thomas, 2009). Estimates of income poverty are available for most Asian developing countries, but monitoring of capacity for reducing poverty is weak. In addition, Millennium Development Goal (MDG) 2 (access to education) and MDG 3 (gender inclusion) do not provide information on the quality of education. There is also a need to better measure capabilities (participation, social development, transparency, social protection).

With ADB’s growing focus on the private sector, private investments can play a special role. Recent work at the International Finance Corp. (IFC) has tried to improve tracking of private sector operations. Figure 2 shows that nearly 60% of projects were in the quadrant of “high growth and low evidence of inclusiveness”, and 25% in “high growth and strong evidence of inclusiveness”. From this sample, there was limited evidence of how benefits from private sector-led growth created employment for or delivered services to the poor.

In response, IFC is (i) developing an action plan with indicators and target date for implementation as part of IFC’s reporting to its board of directors, (ii) adopting a framework for characterizing its project portfolio for fiscal years 2012-14, (iii) broadening the definition of the frontier region to enhance targeting of the poor, (iv) more clearly articulating projects’ direct and indirect poverty outcomes, and (v) requesting that staff apply poverty concepts in IFC strategies.

Important gaps also remain to be addressed, including: (i) refining the definition and measurement of inclusive growth, (ii) assessing the quality of economic rate of return used as a proxy of growth, and (iii) improving the measurement and tracking of poverty and inclusion. These challenges would also seem to reflect some of the unmet agenda for ADB’s private sector efforts in Asia.

Emphasizing the objectives of investments, shaping the policy mixes supporting them, and injecting monitoring and evaluation into the process would seem to be key operational directions. Improvements in these areas would help ADB’s interventions in the private and public sectors contribute to greater inclusive growth.
References


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The views and assessments contained herein do not necessarily reflect the views of the Asian Development Bank (ADB) or its Board of Directors or the governments they represent. ADB does not guarantee the accuracy of the data and accepts no responsibility for any consequence of their use.

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

Based in Manila, ADB is owned by 67 members, including 40 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

Learning Lessons is a synthesis of key lessons drawn from evaluations of ADB-supported projects and programs. This synthesis may include contexts derived from literature review. Lessons presented in this brief are not prescriptive, and users are advised to carefully review these lessons in the context of country, sector, and thematic conditions.

Contact Us
Independent Evaluation Department
Asian Development Bank
6 ADB Avenue, Mandaluyong City
1550 Metro Manila, Philippines
Tel +63 2 632 4100
Fax +63 2 636 2161
www.adb.org/evaluation
evaluation@adb.org
## EXAMPLES OF SECTOR AND THEMATIC OPERATIONAL PLANS SUPPORTING THE INCLUSIVE GROWTH AGENDA

<table>
<thead>
<tr>
<th>Plan</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ADB’s Energy Policy (2009)</strong></td>
<td>ADB’s 2009 Energy Policy recognizes the essential role of energy in reducing poverty and achieving inclusive growth. Maximizing access to energy for all is one of three pillars under the new policy. Initiatives to promote inclusive growth include: supporting sustainable rural electrification efforts designed to provide electricity to all (especially to the rural populations), with a focus on remote areas that are less likely to be connected to electricity grid; developing small-scale demonstration projects that can be replicated in other locations, such as remote mountain villages or island communities; and promoting regional power trade, which can reduce the need to build new power generation plants in each country. Where access to financing is a constraint, ADB will support credit facilities to expand end-user financing for energy products and services.</td>
</tr>
<tr>
<td><strong>Sustainable Transport Initiative (2010)</strong></td>
<td>ADB seeks to develop transport operations that are economically, socially, and environmentally sustainable. Under the plan, ADB will increasingly focus on rural road construction and maintenance, using labor-intensive approaches whenever feasible. Support for highways development will become more selective—focusing on countries that still lack the necessary institutional capacity and access to finance to independently develop and operate their highway networks. To support social sustainability, ADB will expand its work on pro-poor dimensions of transport. This will include improving rural bus services and nonmotorized transport. ADB will also step up its support for gender mainstreaming and participation by women in the transport sector, reducing the threats of HIV/AIDS and human trafficking, guaranteeing core labor standards, and the use of tariff and subsidy options to optimize the balance between access and affordability.</td>
</tr>
<tr>
<td><strong>Education Sector Operations Plan (2010)</strong></td>
<td>ADB pursues inclusive education at all levels of education systems to provide equitable access to good quality education for all student groups, including the poor, girls, and students from other disadvantaged groups. ADB emphasizes the importance of supporting inclusive education throughout the education system, as a sector-wide priority. ADB will support the strengthening of inclusiveness and quality of basic and secondary education for all. In these subsectors, ADB has gained significant experience and success in providing support to poor students, girls, and students from other often disadvantaged groups through scholarship schemes and other relevant social protection measures. ADB’s support for development of postsecondary education pays attention to equitable access and inclusiveness factors to provide more opportunities for all to continue studies at the postsecondary level and help students achieve their full learning potential and acquire relevant knowledge and skills.</td>
</tr>
<tr>
<td><strong>Financial Sector Operational Plan (2011)</strong></td>
<td>In finance, inclusive growth is promoted through easier access to financial services by the poor and disadvantaged and through indirect support for government financing plans by strengthening public debt management and central banking.</td>
</tr>
<tr>
<td>Operational Plan</td>
<td>Description</td>
</tr>
<tr>
<td>------------------</td>
<td>-------------</td>
</tr>
<tr>
<td>Water Operational Plan (2011)</td>
<td>The draft water operational plan promotes inclusive water policy reforms to ensure broader coverage of piped water because the urban poor pay most for their water because of their reliance on bottled supplies.</td>
</tr>
<tr>
<td>Urban Operational Plan (Draft)</td>
<td>The draft urban operational plan stresses greater inclusiveness in urban development—by promoting equal access to public facilities and transport, for example, as well as by improving slum environments.</td>
</tr>
<tr>
<td>Operational Plan for Health (2008)</td>
<td>In the health sector, ADB operations will be guided by the health sector operational plan and will contribute to health improvements mainly through infrastructure projects for water management and sanitation and through governance work that focuses on public expenditure management for cost-effective delivery of health services to all population groups. ADB will also continue to incorporate activities to mitigate and control transmission and spread of communicable diseases in its infrastructure projects.</td>
</tr>
<tr>
<td>Operational Plan for Sustainable Food Security (2009)</td>
<td>ADB will support agriculture and rural development mainly through infrastructure for rural transport, irrigation, and water systems and microfinance. In addition, ADB’s Operational Plan for Sustainable Food Security lays out the approach for improving availability of and access to adequate and safe food in a sustainable manner. It seeks to address three critical constraints that contribute to such vulnerability: stagnating food productivity and production, poor connectivity, and lack of resilience due to threat of climate change and volatility of food prices.</td>
</tr>
<tr>
<td>Action Plan for Implementing the Disaster and Emergency Assistance Policy (2008)</td>
<td>ADB’s integrated disaster risk management approach acknowledges that disasters affect the poor disproportionately and ADB is helping to promote the inclusive growth agenda through initiatives that include catalyzing investment to protect critical services to the poor, increasing access to disaster risk financing, and recognizing and addressing the disparate impacts of disasters, especially on the poor.</td>
</tr>
</tbody>
</table>
## COMPARATIVE SHARES OF INCLUSIVE GROWTH PROJECTS (%)

<table>
<thead>
<tr>
<th>Project Classification</th>
<th>Share to Total Number of ADF Projects</th>
<th>Share to Total ADF Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>ADF IX</td>
<td>ADF X</td>
</tr>
<tr>
<td>Total Number and Value ($ million) of Projects</td>
<td>197</td>
<td>269</td>
</tr>
<tr>
<td>General Intervention (GI)</td>
<td>49.2</td>
<td>48.0</td>
</tr>
<tr>
<td>GI with Inclusive Growth Elements</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture and natural resources</td>
<td>2.0</td>
<td>3.0</td>
</tr>
<tr>
<td>Education</td>
<td>4.1</td>
<td>1.9</td>
</tr>
<tr>
<td>Health, nutrition, and social protection</td>
<td>0.5</td>
<td>0.4</td>
</tr>
<tr>
<td>Water supply, sanitation, and waste management</td>
<td>1.5</td>
<td>1.9</td>
</tr>
<tr>
<td>Finance</td>
<td>-</td>
<td>1.1</td>
</tr>
<tr>
<td>Others&lt;sup&gt;a&lt;/sup&gt;</td>
<td>8.6</td>
<td>13.0</td>
</tr>
<tr>
<td>Targeted Interventions (TI)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture and natural resources</td>
<td>5.6</td>
<td>4.8</td>
</tr>
<tr>
<td>Education</td>
<td>6.1</td>
<td>1.9</td>
</tr>
<tr>
<td>Health, nutrition, and social protection</td>
<td>5.6</td>
<td>4.5</td>
</tr>
<tr>
<td>Water supply, sanitation, and waste management</td>
<td>7.1</td>
<td>9.7</td>
</tr>
<tr>
<td>Finance</td>
<td>1.0</td>
<td>0.4</td>
</tr>
<tr>
<td>Others&lt;sup&gt;a&lt;/sup&gt;</td>
<td>8.6</td>
<td>9.7</td>
</tr>
</tbody>
</table>

<sup>a</sup> Includes GI and TI projects classified under the following sectors: energy, industry and trade, multisector, public sector management, and transport and communications.

Note: Projects counted as supportive of inclusive growth include all targeted interventions (TI) under three categories including (i) TI-H: individual or household targeting which refers to projects that disproportionately benefit the extreme poor; (ii) TI-G: geographically targeted interventions which refer to projects located in areas with high incidence of poverty and help overcome constraints responsible for the backwardness of the areas; (iii) TI-M: sectoral/subsectoral interventions addressing the binding constraints to achieving the Millennium Development Goals in a particular country and include projects that address food security and hunger, education, health, gender equality, water and sanitation etc. In addition to these TI projects in the existing ADB classification system which meet the ‘inclusiveness criterion’, other projects classified as general interventions (GI) could also be considered as inclusive in nature. These include: (i) social protection/safety net interventions consisting of health insurance, pensions, conditional cash transfer projects, crisis interventions with significant social protection components, etc.; (ii) inclusive finance and microfinance interventions – finance projects that support rural banking and other financial services catering to small and medium sized enterprises and microfinance institutions; (iii) projects with gender as theme; and (iv) other inclusive GI projects such as those supporting rural and agricultural development, technical education and skills development.

# Framework of Inclusive Growth Indicators

## Income

1. Proportion of population living below the national poverty line
2. Proportion of population living below $2 a day at 2005 PPP $ 
3. Ratio of income/consumption of the top 20% to bottom 20%

## Non-income

4. Average years of total schooling (youth and adults)
5. Prevalence of underweight children under-five years of age
6. Under-five mortality rate

## Pillar One

### Growth and Expansion of Economic Opportunity

<table>
<thead>
<tr>
<th>Economic Growth and Employment</th>
<th>Education and Health</th>
<th>Access to Basic Infrastructure Utilities and Services</th>
<th>Gender Equality and Opportunity</th>
<th>Good Governance and Institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>10. Elasticity of total employment to total GDP (employment elasticities)</td>
<td>18. Physicians, nurses, and midwives per 10,000 population</td>
<td>26. Percentage of population using improved sanitation facilities</td>
<td>29. Percentage of seats held by women in national parliament</td>
<td></td>
</tr>
<tr>
<td>11. Number of own-account and contributing family workers per 100 wage and salaried workers</td>
<td>19. Government expenditure on education as percentage of total government expenditure</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

## Key Infrastructure Endowments

12. Per capita consumption of electricity
13. Percentage of paved roads
14. Number of cellular phone subscriptions per 100 people
15. Depositors with other depository corporations per 1,000 adults

## Social Protection and Income Safety Nets

30. Social protection and labor rating
31. Social security expenditure on health as a percentage of government expenditure on health
32. Government expenditure on social security and welfare as percentage of total government expenditure

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GDP = gross domestic product, PPP = purchasing power parity
Source: Asian Development Bank. Developed from the note prepared by the Economics and Research Department on Inclusive Growth: The Concept and Its Operationalization, March 2011 (Figure 1).