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

**Asian Development Bank  
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## ABBREVIATIONS

ADB	-	Asian Development Bank
ADF	-	Asian Development Fund
ADTA	-	advisory technical assistance
COS	-	country operations strategy
CSP	-	country strategy and program
CSPU	-	country strategy and program update
DMC	-	developing member country
IMF	-	International Monetary Fund
LTSF	-	long term strategic framework
MDB	-	multilateral development bank
MDG	-	millennium development goal
NGO	-	nongovernment organization
NPRS	-	national poverty reduction strategy
OCR	-	ordinary capital resources
ODA	-	official development assistance
PDR	-	People's Democratic Republic
PI	-	poverty intervention
PPA	-	poverty partnership agreement
PRC	-	People's Republic of China
PRS	-	Poverty Reduction Strategy
PRSP	-	poverty reduction strategy paper
PSD	-	private sector development
PSO	-	private sector operation
RSDD	-	Regional and Sustainable Development Department
RD	-	Regional Department
SME	-	small and medium enterprise
TA	-	technical assistance
WB	-	World Bank

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

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# REVIEW OF ADB'S POVERTY REDUCTION STRATEGY

## I. INTRODUCTION

1. The Asian Development Bank's (ADB's) approval of the *Poverty Reduction Strategy* (PRS) in 1999<sup>1</sup> made poverty reduction in Asia and the Pacific the overarching objective of the organization. This paper provides a progress report on the review of ADB's PRS. The report assesses Asia and the Pacific's track record in reducing poverty (chapter II), ADB's implementation experience of PRS (chapter III), the relevance of the conceptual framework of PRS (chapter IV), and the major issues that have been identified during the review to date (chapter V). The PRS review is continuing and a final report is scheduled to be completed before the end of the year.

2. Based on the experience of Asia and the Pacific in tackling poverty reduction, the framework of PRS and the Long Term Strategic Framework (LTSF)<sup>2</sup> that followed is built around three pillars - *pro-poor sustainable economic growth, inclusive social development, and good governance* (Appendix 1). The PRS specifies that the three pillars are mutually reinforcing. Sustained pursuit of policies and programs that strengthen these pillars will lead to poverty reduction. In addition, four crosscutting concerns – good governance, private sector development, gender, environmental sustainability – are an integral part of the PRS in attaining sustained reduction in poverty.

3. The global economic and political situation has become more uncertain since the PRS was adopted. Sluggish growth in the industrialized countries, slow recovery of international trade, and risk aversion on the part of international investors, are impacting negatively on the growth prospects of Asia and the Pacific. Given growing integration with the global economy, the impact could be commensurately larger. Some developing member countries (DMCs) are likely to be particularly affected, and to find it difficult to gain access to important export markets.

4. The global development architecture has also evolved since the adoption of the PRS. The Millennium Development Goals (MDGs) have been accepted, including by ADB, as the benchmark for monitoring progress in global poverty reduction. In addition, DMCs are developing national poverty reduction strategies (NPRSs), which outline strategies for attaining poverty reduction goals. Partnerships between DMCs and development partners have strengthened in the process of developing the NPRSs. Some NPRSs have evolved into poverty reduction strategy papers (PRSPs).

5. For this review, an extensive process of data collection and analysis is being followed (Appendix 2). Focus group discussions and individual interviews were organized with different categories of staff. In-country assessments were undertaken for six DMCs, involving discussions with government officials, civil society including nongovernment organizations (NGOs), academics, and development partners. This was complemented by a DMC workshop in August 2003 in which representatives of 33 borrowing countries participated.

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<sup>1</sup> ADB 1999. *Fighting Poverty in Asia and the Pacific: The Poverty Reduction Strategy*. Manila.

<sup>2</sup> ADB 2001. *Moving the Poverty the Poverty Reduction in Asia and the Pacific: the Long Term Strategic Framework of the ADB (2001-2015)*. Manila.

## II. POVERTY IN ASIA AND THE PACIFIC

6. Asia and the Pacific's track record in the 1990s in reducing income poverty has been impressive. Poverty incidence declined by about a quarter over the decade.<sup>3</sup> In 1990, some 32% of people in the region lived under the poverty line. By the year 2000, this proportion had come down to 23%.<sup>4</sup> The absolute number of poor also declined by around 165 million, from 900 million in 1990 to 735 million by the end of the decade. The region suffered a major financial crisis in 1997, which depressed the regional growth rate and increased the incidence of poverty. Poverty incidence would have been even lower had the financial crisis not occurred.

7. Poverty reduction in Asia and the Pacific in the 1990s compares very favorably with other developing regions. During this period, Latin America and the Caribbean reduced poverty incidence by 2 percentage points, and Sub-Saharan Africa by 1 percentage point. The main reason underlying Asia and the Pacific's record was faster rates of economic growth. East and Southeast Asia subregions, which experienced the largest decrease in poverty, were also the fastest growing, recording an average growth in per capita income of 6.4% per annum. South Asia's per capita growth was 3.3% per annum. In contrast, Latin America and the Caribbean recorded an average per capita growth of 1.6% per annum, while Sub-Saharan Africa's per capita income contracted by 0.4% per annum. Despite the impressive gains in reducing poverty, because of its large population, Asia and the Pacific still has more than 60% of the world's poor.

8. The result for Asia and the Pacific was driven largely by the People's Republic of China (PRC), where poverty incidence was halved (from 31% to 16%), due mainly to high and sustained rates of economic growth. The rest of the region (excluding PRC) also witnessed a decline in poverty incidence, although to a lesser degree – from 32% to 27%. This in turn was driven largely by India's success in lowering poverty incidence – from 42% to 33%. The majority of subregions and countries witnessed reduced poverty during the decade. In East Asia, Southeast Asia, South Asia, and the Pacific, both the rate of poverty and the absolute number of poor declined. In Central Asia, poverty incidence was higher at the end of the 1990s, but already declining from the high levels early in the decade.

9. Southeast Asia has recovered from the shock of the financial crisis of 1997 and resumed the downward trend of poverty incidence. Unlike the Central Asian economies, the transition economies of this region – Viet Nam, Cambodia, and the Lao People's Democratic Republic (PDR) – all succeeded in reducing poverty.

10. South Asia provides a mixed picture. Of the four major economies in this region, three were successful in reducing poverty – India, Bangladesh, and Sri Lanka. But in Pakistan, poverty incidence increased sharply over the decade – from 24% to 37%, owing to slow growth and rising inequality of income. South Asia still accounts for the majority of the region's poor, 425 million people.

11. Although, with continued growth, Asia and the Pacific appears to be on track for meeting the MDG for income poverty, there will still be several countries that are unlikely to meet it. Even in countries that meet the target, there could still be sizeable pockets of poverty. In middle-

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<sup>3</sup> For policy purposes, most countries use their own definitions of poverty and poverty line. A common international standard of one dollar-a-day adjusted for purchasing power parity is used here to discuss poverty in Asia and the Pacific.

<sup>4</sup> The income poverty estimates are based on a background study undertaken for the PRS review. S.R. Osmani *Poverty in Asia in the 1990s*, ADB, August 2003

income countries, a problem could manifest itself as ‘relative poverty’ through worsening income distribution with economic growth. Public policy has a major role to ensure that growth is broad based and sustainable.

12. While the linkage between economic growth and reduction in income poverty has been empirically established, the linkage is less strong for the non-income dimensions of poverty. Asia and the Pacific performance has been much less pronounced in reducing non-income dimensions of poverty. For instance, the rate of under-five mortality has come down from 85 per thousand in 1990 to 70 per thousand in 2000, too slow to meet the MDG target of reducing under-five mortality by two-thirds by 2015. Central Asia and the Pacific have made no progress in this regard while East Asia has made only modest progress. But the biggest problem lies in South Asia where the rates of under-five mortality and infant mortality remain exceptionally high. In South Asia, under-five mortality declined slowly from 126 per 1,000 live births to 96 in the 1990s, while infant mortality was reduced from 69 per 1000 live births to 58. South Asia’s progress in immunization of children, births attended by skilled health staff, and combating HIV/AIDS also remains slow.

13. The record of improving educational achievement has been modest. For instance, the rate of youth literacy has risen only marginally from 82% in 1990 to 85% in 2000. In this respect too, the MDG seems unachievable without significant changes in funding. As in the case of health, South Asia presents the biggest challenge. While the smaller countries like Sri Lanka and Maldives have progressed, the three large countries – India, Pakistan, and Bangladesh – all have a low level of educational achievement, and their rate of improvement over the decade has been modest. Only 68% of children in South Asia reached grade 5, while the enrollment rate increased marginally from 73% to 79% in the 1990s. Little progress has been made in achieving gender equality; the ratio of literate females to males rose from 0.72 to 0.80 in the 1990s. The track record in meeting the MDG relating to environmental sustainability, especially halving the proportion of people without access to safe drinking water and a significant improvement in the lives of slum dwellers, has been mixed as well.

14. The low-income countries in the region, especially in South Asia, underinvest in social sectors. For example, the larger South Asian countries spend in the range of \$50–75 per capita on health.<sup>5</sup> This is much less than per capita health expenditures in some of the East and Southeast Asian countries (e.g., Singapore \$913, Korea \$899, Malaysia \$310, and Thailand \$237). Budgetary allocations for education are also proportionately small.

15. Countries with low social indicators have typically experienced sluggish economic growth, which has constrained government revenues. With continuous pressures on expenditures, social sector investments tend to get low priority. Many governments also face rising and unsustainable fiscal deficits, along with large public debts. Acceleration of economic growth, together with improvements in fiscal management and prioritization of expenditures, is critical for these countries to achieve significant improvements in social indicators.

### III. IMPLEMENTATION PROGRESS

16. In the three and a half years since the adoption of the PRS, ADB has made progress in reorienting its operations towards the goal of poverty reduction. This has been achieved primarily by responding to the analytical, investment, and targeting requirements of the PRS.

<sup>5</sup> Adjusted for purchasing power parity. *Human Development Report, 2003*

None of the investment projects approved since the adoption of the PRS has been completed. It is premature to assess the impact of ADB operations on poverty reduction on the ground. This section, therefore, assesses the realignment of ADB's institutional capacity and operations in response to the PRS. It also documents the major concerns highlighted during implementation. The section concludes with some key lessons.

## **A. Country Level Operations**

### **1. Poverty Analyses and Poverty Partnership Agreements**

17. **Poverty Analyses.** Since the adoption of the PRS, poverty analyses have been conducted in 22 countries, with 9 under preparation. Most analyses have adopted a broad definition of poverty and poverty reduction. The poverty analyses have increased awareness and understanding by DMC and ADB staff of the causes and consequences of poverty. In some countries, poverty reduction has been formulated as a strategic goal for the first time. The process has led to sharper poverty focus in policy dialogue, and contributed to the process of formulating DMC's own NPRS.

18. The poverty analysis process has promoted improved coordination between ADB and other development partners, particularly through joint analyses. The participatory process applied to the poverty analysis has generated improved working relationships between ADB and civil society groups, including NGOs. At times, the process has also encouraged government partners to work with NGOs.

19. **Poverty Partnership Agreements.** So far, 20 poverty partnership agreements (PPAs) have been concluded between DMC governments and ADB, with 8 more expected by early 2004. PPAs, generally a five to seven page document, record medium- and long-term poverty reduction objectives. They also identify an indicative lending level over a four to five year period. The objectives are in line with targets set in NPRSs. Medium-term objectives are generally structured around the three pillars of the PRS, and the crosscutting priorities.<sup>6</sup>

20. The achievement in concluding PPAs compares reasonably well with the target set in 2000 that ADB would sign PPAs with all DMCs by the end of 2002.<sup>7</sup> There are reasons for the slower than expected progress. The concept of poverty reduction as a strategic goal and the commitment to specific targets were new to many countries; time and resources for poverty analyses were underestimated; some governments wanted resolution of key policy issues before conclusion of a PPA; and some felt that PPAs could be incorporated in country strategies and programs (CSPs) or CSP updates (CSPUs). In some countries, introduction of the PRSP process made similar resource demands as PPA preparation.

21. Poverty analyses and PPAs have been the main means for incorporating the PRS elements in ADB's country level operations, especially in countries which have not yet gone through the full CSP cycle. PPAs also offer a monitoring framework by providing specific targets

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<sup>6</sup> Good Governance is both a pillar and a crosscutting priority in the PRS. The four crosscutting priorities of the PRS were replaced with the following three in the LTSF: private sector development, environmental sustainability, and regional cooperation. Gender is being mainstreamed under the inclusive social development pillar. This review takes the view that the three pillars are complemented by four crosscutting priorities (private sector development, environmental sustainability, gender and development, and regional cooperation), contained in the PRS or LTSF.

<sup>7</sup> ADB 2000. *Implementing ADB's Poverty Reduction Strategy: Action Plan 2000*. Manila

that are incorporated in new CSPs. However, there needs to be more systematic monitoring of these targets.

## 2. Country Strategy

22. One country operational strategy (COS) and seven CSPs have been developed and approved by the Board using the new processes of the PRS. Six more are expected for approval in 2003, and 3 more plus a joint strategy for 12 Pacific DMCs in 2004. Changes in programs have been incorporated into annual CSPUs—over 50 CSPUs have been approved for 31 DMCs since 2001.

23. Documentary evidence and feedback from DMCs and ADB staff show that the new processes have improved ADB's country strategy formulation. The new processes provided a useful means to sharpen the strategic focus on poverty reduction around the PRS framework (i.e., the three pillars). At the same time, the experience has highlighted that the PRS framework needs to be applied flexibly to meet a country's specific conditions (Box 1).

24. Adoption of the PRS has also led to a special focus on poor and underserved areas. Several country programs have identified poor geographical areas for greater support. For example, the focus has shifted in PRC to the western and central provinces; in Viet Nam to the Central Highlands; in Cambodia to the Tonle Sap basin; in India to the provinces of Madhya Pradesh, Chattisgarh and Kerala; and in Lao PDR to the northern provinces.

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

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

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

**Viet Nam.** The CSP provides almost equal weight to the three pillars to support the NPRS. It envisages ADB support for agriculture and small and medium enterprise (SME) to promote economic growth, health and education sectors to strengthen social development, and public administration reforms to improve governance. Approximately one third of lending is focused on the relatively poor Central Highlands.

## 3. Lending Programs<sup>8</sup>

25. The proportion of projects in ADB's lending program with direct poverty reduction impacts has increased since the adoption of the PRS. By approved loan amounts, the proportion of approved projects classified as poverty interventions (PI) increased from 29% in 2001 to 42% in 2002. It is projected to reach 45% in 2003. The share rose from 21% in 2001 to 27% in 2002 for ordinary capital resources (OCR)-funded operations. The share of PI projects increased more sharply for Asian Development Fund (ADF)-financed operations, jumping from 53% in 2001 to 78% in 2002. ADB has made considerable progress in reorienting its operations towards poverty reduction by meeting the 40% lending target for PI projects. However, considering the need to sharpen country focus and some difficulties experienced in implementing the PI classification, the 40% lending target for PI projects needs to be reviewed (Box 2).

<sup>8</sup> Analyses of lending activities discussed in this section exclude some of the exceptional lending extended in response to the 1997 Asian financial crisis.

**Box 2: Problems of the PI Classification System and the 40% Lending Target**

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

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

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

26. ADB diversified its operations into new activities since the adoption of the PRS. The average number of sectors with ADB involvement per country program has increased from 2.9 during 1997-1999 to 3.6 for 2000-2002,<sup>9</sup> due to additional activities in social protection, emergency assistance, and governance. The diversification of sectors has taken place primarily in ADF borrowers, and is more pronounced in small countries.

27. By sector allocations, there is an overall increase in the share for transport and energy operations, financed through OCR, more than offsetting a small decline financed through ADF. On the other hand, the share for social infrastructure has declined, from an exceptional level totaling about \$1.4 billion in 1998-1999 in response to the Asian financial crisis. Excluding these loans, the lending level for social infrastructure remained the same as in the previous period. ADB assistance for governance also remained the same at about 18% for both periods.

#### 4. TA Programs

28. An increasing proportion of TA resources is being devoted to poverty related activities. The proportion of TAs classified as "Others" and "Multisector" together has increased from 39% (1997-1999) to 64% (2000-2003). The increase in "Others" TAs is partly because of ADB's growing support for DMC's capacity building for poverty related activities. Between 2000 and 2003, ADB has provided a total of 30 ADTAs (amounting to \$10.7 million) in 22 DMCs to strengthen capacity for analyzing and monitoring poverty. During the same period, 13 ADTAs (amounting to \$6.0 million) were approved in 11 DMCs to assist them in formulating NPRSs.

29. ADB's ability to support DMCs' effort for poverty reduction through policy research and capacity building operations has been constrained by shrinking TA resources. Analysis of ADTA programs in 1997-2002 shows that the level of ADTA activities remained constant at about \$85 million per year. In 2003, however, the planned program has dropped sharply to \$65 million.

30. The increasing support for poverty work combined with declining TA resources has meant less resources for supporting capacity building and policy research at the sector level. ADB support for governance (for example, public administration reforms and financial management) and social protection sectors has increased. TA support for most sectors has gone down after the adoption of the PRS. The trend of declining TA resources for sector work is likely to adversely affect future ADB operations and policy dialogue at sector level.

<sup>9</sup> ADB's lending program is classified into eight sectors for tracking purposes: agriculture and natural resources; social infrastructure; energy; transport and communication; industry; finance; multisector; and others.

## 5. Private Sector Operations

31. Through private sector operations (PSO), ADB attempts to leverage funds from commercial sources in support of selected private sector projects that deliver specific developmental impacts and related demonstration effects. PSO primarily focuses on the financial sector and infrastructure development. ADB supports financial intermediation projects to help sustain growth and provide funding to SMEs. The indirect impact of investments in infrastructure and small businesses may be substantial.<sup>10</sup> Support for private investment in the social sectors is being tried on a pilot basis. In addition, investment projects adhere to environmental and social guidelines and help raise corporate governance standards.

### B. Other Operational Areas

#### 1. Project Design

32. The project preparation process has become more pro-poor and participatory since the adoption of the PRS. More projects use participatory approaches and seek the involvement of beneficiaries in project design in 2002 as compared to 1999 (Table 1). Community participation during project preparation has increased in all sectors. Most projects undertook some poverty analyses to identify constraints faced by the poor. Increasingly, projects are using techniques such as poverty mapping, geographical information systems, and distribution analyses to strengthen their pro-poor focus, as well as to monitor their impact. However, the change in the project preparation process has also increased the resource needs for preparing projects, both for ADB and governments. Staff feedback indicates a much greater share of staff time on such activities.

33. The changes in project design stem from the use of innovative elements to reach the poor, such as decentralization of services, pro-poor monitoring and evaluation systems, pro-poor covenants, and poverty impact assessments (Table 1 and Box 3). An increasing number of projects are designed to promote decentralized implementation and involve communities in implementation and monitoring. The proportion of projects with public-private partnerships for provision of basic services has also increased. The proportion of projects that have poverty-disaggregated monitoring systems has doubled. Use of covenants for improving poverty reduction impact has increased from 33% in 1999 to 40% in 2002. A greater proportion of projects seek to target resources for the poor.

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<sup>10</sup> An evaluation of ADB's investment fund operations found that some funds were more successful than others. Overall, significant development impacts were produced through mobilizing additional resources; supporting SMEs, new entrepreneurs, and technology development; helping develop capital markets; and on employment generation. See ADB 2002. *Impact Evaluation Study: Investment Fund Operations of ADB*. Manila.

**Table 1: Changes in Project Features Since 1999**

Elements of Project Design	Percent of Projects	
	1999	2002
Poverty reduction as ultimate goal	71%	79%
Use of poverty mapping for project design	20%	39%
Use of poverty-disaggregated monitoring indicators	50%	75%
Poverty monitoring	27%	50%
Pro-poor loan covenants	33%	40%
Poverty impact assessment	42%	63%
Project with some geographically targeted interventions	54%	63%
Use of some targeting mechanism for the poor	42%	68%

**Box 3: Reaching the Poor: Some Innovative Approaches**

**Public Private Partnership for Health Services in Cambodia.** The Ministry of Health is contracting NGOs to deliver health services as an alternative to conventional government provision under the Health Sector Support Project. An independent evaluation of an earlier pilot showed that coverage of health services in the districts contracted to NGOs improved several fold within a short time. NGO contracted services were more effective in reaching the poor; access to curative health services by the poor increased 6 to 8 times.

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

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

34. **Individual Targeting.** The proportion of projects and project components that directly target poor individuals and households has increased since the adoption of the PRS (para. 25), including livelihood improvement and income generation projects. However, staff feedback suggests that designs of such projects targeted to individuals or households are usually complex. Given ADB's resource constraints, they are found to be difficult to implement and monitor. Sustainability of such projects is often in doubt.

35. **Geographical Targeting.** There is a discernible trend of greater focus on rural, remote, and underserved areas. This results from greater geographical focus in country strategies, and the institutional emphasis on poverty focus in each project. Several country programs have identified poor geographical areas for support (para. 24), leveraging additional government and other resources for and redirecting the policy focus on marginalized areas. While it is too early to assess the effectiveness of geographical targeting, the operational cost of the approach is considerably smaller than that of individual or household targeting.<sup>11</sup>

<sup>11</sup> A large body of literature on the general principles of geographical targeting points to easy implementation and monitoring, and lower administrative costs (for example, Bigman D. and H. Fofack. 2000. "Geographical Targeting

36. **Sector and Subsector Targeting.** ADB has reoriented its operations in some sectors in line with PRS-recommended pro-poor sub-sectors. The most significant realignment has occurred in agriculture, education, health, micro-finance, and SME projects. For example, the share of lending in the rural and micro-finance subsector has grown from 2% of total financial sector lending in 1999 to about 20% during 2000-2002. Similarly, ADB involvement in supporting SME has significantly increased in the last three years both in the public and private sector operations. Investing in sectors or subsectors that directly help in achieving MDGs has been found to be operationally efficient. This may also be an effective approach for directing public subsidies to the poor and removing barriers to their active participation in economic activities.<sup>12</sup>

37. A negative fall-out of the change in project designs has been increased transactions costs. Feedback from staff and DMCs points to increasing complexity of designs, delays in project implementation, and dilution of technical focus in ADB projects. Administration of such projects has been more resource intensive, both for ADB and DMCs.

## 2. Integrating Crosscutting Priorities

38. Consistent with the recommendations in the PRS, ADB has in the last three years attempted to mainstream in its operations the crosscutting priorities – private sector development, gender, environment, and regional cooperation. Environment is part of ADB's compliance policy and procedures. The integration of environmental concerns has proceeded much further and earlier than the other crosscutting priorities.

39. Country poverty assessments, PPAs, and CSPs show more systematic attention to the crosscutting issues, although with varying depth of analysis. Most CSPs and PPAs contain gender and environment related targets. Similarly, integration of crosscutting priorities in projects is becoming more common (Table 2). There has also been a steady increase in TA operations related to the crosscutting priorities. For example, there was no private sector development related TA approved in 2000. However, 27 TAs for \$14 million were approved in 2001-2002, and 53 TAs for \$23 million are proposed for 2003-2005.

**Table 2: Mainstreaming of Crosscutting Priorities**

Crosscutting Priority	Proportion of Projects that Mainstreamed the Priority (% of total number of projects)			
	1997-1999	2000	2001	2002
Private Sector Development *	n.a.	n.a.	13.4	14.8
Gender**	n.a.	n.a.	57.0	56.5
Environment***	17.8	14.6	13.4	22.2

\* Comparable data is not available.

\*\* These represent projects that are classified as gender, and have gender analysis and targeting.

\*\*\* These represent projects with environment objectives.

for Poverty Alleviation: An Introduction to the Special Issue." The World Bank Economic Review. Vol 14, no. 1: 129-45).

<sup>12</sup> Van de Walle, D. and K, Neads, eds. 1995. *Public Spending and the Poor: Theory and Evidence*. Baltimore, Md, Johns Hopkins Press.

40. In general, there has been convergence between integration of the crosscutting priorities and projects classified as PIs. Only 6 out of 35 projects, approved in 1997-2000 and classified as having an environmental strategic objective, had components benefiting the poor. However, about half of projects with environment objectives approved between 2001 and 2002 were also classified as PIs. The 2003-2005 pipeline includes 58 proposals for environment-related projects currently classified as PIs.

41. Mainstreaming of the crosscutting priorities has been facilitated by an increase in crosscutting specialists, development of the relevant policies and strategies, and creation of special funds for some of the priority areas. ADB has recruited over 20 new crosscutting specialists, including the placement of local gender specialists in six resident missions (RMs). Special trust funds have been created for addressing gender and environment issues.<sup>13</sup> Policies and strategies have been developed for private sector development and environment.<sup>14</sup>

42. ADB's involvement in regional cooperation has increased in recent years. In 1998-1999, two regional cooperation projects were approved involving four countries and four loans. In 2000-2002, four projects involving nine loans were approved;<sup>15</sup> around 13 more projects are planned in 2003-2005. There have been 78 TA activities to facilitate regional cooperation investments. The most common form of regional cooperation up to now has aimed at expanding economic opportunities within a subregion, mainly involving infrastructure development in the transport, energy, and communications sectors, and various trade facilitation measures. The concept of regional cooperation includes regional public goods. More attention is being paid recently to such areas as environmental standards, better management of shared resources, such as rivers and natural areas, and management of communicable diseases, such as HIV/AIDS and Severe Acute Respiratory Syndrome (SARS). ADB's Regional Economic Monitoring Unit conducts research, provides training, and disseminates research findings pertaining to regional macroeconomic and financial risks. Activities related to regional public goods involve coordination across borrowers and nonborrowers.

### 3. Emergency and Post-Conflict Operations

43. To help restore conditions for growth and poverty reduction, ADB has responded to emergency situations in 12 different countries from 1997-2002.<sup>16</sup> Emergency assistance has been provided in the aftermath of floods, earthquakes, typhoons, and the recent SARS outbreak. Emergency lending is processed under special accelerated procedures, and amounted to more than \$1 billion during this period. This included large loans related to floods in PRC and Bangladesh, an earthquake in Gujarat State of India, and several smaller loans and a regional TA grant to support the response to SARS. Assistance has also been provided post-conflict to help the process of institutional and physical restoration. Post-conflict lending, including that for Afghanistan, Tajikistan, Cambodia, and Sri Lanka, has amounted to \$240 million in the same period. Together, emergency and post-conflict assistance represents, just over 4% of total loan approvals. ADB also supports rehabilitation of infrastructure in Timor-Leste

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<sup>13</sup> The Environment Fund was established in 2003 with an initial contribution from Norway and Sweden of \$3.6 million. The Gender and Development Cooperation Fund was established in 2003 with an initial contribution from Canada, Denmark, and Norway of \$4.2 million.

<sup>14</sup> ADB 2000. *Private Sector Development Strategy*. Manila; ADB 2002. *Environment Policy*. Manila.

<sup>15</sup> The allocation of ADF funds according to the performance-based allocation policy since 2002 has involved a separate amount for regional cooperation projects, but less than the total investment in such projects.

<sup>16</sup> This excludes the program operations in response to the Asian financial crisis.

by administering six projects, totaling about \$53 million, funded by the Trust Fund for East Timor. To respond to the growing demand, ADB is revising its policy on emergency operations.

#### 4. Policies and Strategies

44. ADB policies, policy-related action plans, and strategies approved in the last three years have closely followed PRS recommendations, in their process of development and in content. They all make direct reference to the PRS framework of the three pillars, and the crosscutting and sector priorities. ADB developed policies or strategies for one of the three pillars and two of the four crosscutting priorities just after the adoption of the PRS – the Private Sector Development Strategy in 2000, the Governance Action Plan in 2000,<sup>17</sup> and the Environmental Policy in 2002. ADB also prepared policies or strategies for some of the new priority sectors identified in the PRS: the Social Protection Strategy, and the Microfinance Development Strategy. Since there was not much experience of working in these sectors, these strategies sought to provide operational guidelines in these areas.

45. In addition, ADB initiated the review of some sector policies to realign them with the PRS. For example, a review of the energy policy in 2000 sought to realign ADB operations with the three pillars; emphasized support for pro-poor growth and access to energy for the poor, particularly in rural areas; and identified private sector involvement, and regional and global environmental impacts and regional cooperation as key crosscutting issues. Policies and strategies have been developed following extensive consultative processes involving various stakeholders including DMC governments, civil society, and development partners.

#### 5. Monitoring

46. **Institutional Level.** Although the PRS does not contain a comprehensive framework for monitoring and evaluating the strategy, the first PRS Action Plan for 2000 presented an Operational Framework “developed to ensure systematic and comprehensive implementation of the commitments made in the Strategy”.<sup>18</sup> However, the proposed Operational Framework was not equipped with a set of monitorable indicators. As a result, ADB monitors primarily the proportion of PI projects and the progress in preparing poverty analyses and PPAs.

47. The PRS included a Program for Action that established some partial targets for PRS implementation (including the 40% PI target for lending), together with monitoring and reporting requirements. The latter included the preparation of annual PRS action plans and progress reports that would be submitted to the Board.<sup>19</sup> Action Plans for 2000 and 2001 and a Progress Report for 2000 were prepared. However, no Action Plan for 2002 or Progress Report for 2001 was prepared in the wake of the 2002 reorganization.

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<sup>17</sup> ADB 2000. *Promoting Good Governance – ADB’s Medium-Term Agenda and Action Plan*. ADB approved a governance policy in 1995, ADB 1995. *Governance: Sound Development Management*. Manila.

<sup>18</sup> See footnote 7.

<sup>19</sup> The Presidential Commission on Poverty Reduction was created in February 2000 primarily to oversee implementation of the PRS generally, and annual action plans in particular. The Commission met quarterly, immediately after the Operations Review Meeting (ORM), to review implementation progress of annual action plans and identify issues that require management attention. Subsequently, these meetings were mainstreamed into the ORMs.

48. **Country Level.** At the country level, the PPA has been the main instrument for adopting key indicators, including, in many cases, indicators from MDGs. These indicators and targets are incorporated into CSPs as they are developed.

49. ADB has provided substantial assistance to DMCs to strengthen their capacity to collect and analyze poverty-related data. ADB has provided support for MDG monitoring in 22 of 34 DMCs. It is also providing support to 11 of 34 DMCs to strengthen their capacity for poverty monitoring. This assistance has included support for surveys, building capacity in national statistical services, providing training in participatory poverty assessment methodologies, and developing national poverty monitoring institutions. However, the need remains for donors and DMCs to collaborate in developing multiyear plans for collecting and analyzing poverty data, including assigning responsibilities for the funding of surveys and capacity development and for the provision of technical assistance.

50. Poverty-focused monitoring mechanisms and poverty-related indicators have been incorporated into the design of many projects, especially those that are classified PI. The percentage of projects that uses poverty-disaggregated monitoring has increased significantly (from 50% to 75%) during the period 1999-2002. However, it remains to be seen whether these increasingly poverty-focused monitoring systems will be effectively implemented, and generate useful information. The cost of monitoring has been high for both ADB and DMCs, putting more pressure on over-stretched resources for implementation.

## **C. ADB's Institutional Capacity**

### **1. Instruments and Modalities**

51. The PRS stipulated that ADB should consider offering special terms on OCR loans to countries with limited access to ADF. While the proposal was discussed by the Board, it was not finalized due to lack of consensus among the shareholders. On the other hand, the cluster approach to ADB operations has been attempted in several sectors to better sequence reforms. Similarly, sector approaches, through Sector Development Programs, are increasingly being used to enhance the effectiveness of assistance. Separate regional cooperation funding facilities have not been created, although a proportion of ADF resources is set aside each year to finance regional cooperation projects.

52. After PRS approval, special grant funds have been established under ADB administration in support of poverty-oriented activities.<sup>20</sup> Their purpose is to support investments in human and physical capacities, to complement ADB operations that will promote equitable growth, and help strengthen governance and government functions. Since many of these funds can only be used for poverty reduction related interventions, they have created an incentive among staff to change the project designs more towards addressing poverty. The activities supported have involved a number of sectors and crosscutting themes. These range from participatory poverty assessments, formulation of poverty reduction strategies, pilot investments, monitoring, evaluation, and impact assessment capacities, and workshops and conferences.

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<sup>20</sup> Cooperation Fund in Support of the Formulation and Implementation of National Poverty Reduction Strategies (Netherlands); Governance Cooperation Fund (Canada and Norway); Japan Fund for Poverty Reduction; Poverty Reduction Cooperation Fund (United Kingdom); and Technical Assistance Cooperation Fund for India (United Kingdom). See also footnote 13.

## 2. Organizational Change and Human Resource

53. **Organizational Change.** ADB realigned its structure, business processes, and staff complement after 2000. A major realignment of ADB's organizational structure came in 2002. The new structure including the five regional departments (RDs) was intended to provide a stronger country focus to ADB operations. ADB also strengthened the RMs,<sup>21</sup> nine new in-country offices were established since 2000 and existing ones significantly expanded. A recent review of the reorganization suggests that ADB is now better equipped to provide a greater country focus.<sup>22</sup>

54. The reorganization also created the Regional and Sustainable Development Department (RSDD) as a compliance, quality control, and knowledge-management body. The Poverty Reduction and Social Development Division within the department was to continue the work of the previous Poverty Reduction Unit, but also has other responsibilities.<sup>23</sup> The division also chairs a Poverty Committee whose main function is to establish and lead a poverty network for professional development, provide peer review of relevant documents, and monitor and report on knowledge products and services related to poverty. However, as highlighted in the review of reorganization (footnote 22), clearer mandate and authority of the committee is needed to improve its effectiveness.

55. In 2002, ADB established a knowledge management committee, chaired by the President, to ensure a systematic development and dissemination of knowledge products. A knowledge management framework is being developed. ADB has strengthened its work on poverty databases and statistical capacity building, as well as poverty analysis and impact assessment in ADB operations. ADB's evaluation department has undertaken special studies on poverty impact and the perceptions of the poor, especially in rural, agricultural, and social infrastructure projects, and other evaluations.

56. **Human Resources.** Since 2000, around 70 staff positions have been created in operations departments, and around 30 to augment the RSDD. Thirteen poverty reduction specialists and coordinators have been reassigned to RDs. Over half of the specialists dealing with crosscutting issues have been reassigned to RDs, providing greater accountability for the quality of operations. However, according to the review of reorganization and staff feedback, the insufficient number of specialists and limited access to their expertise has impaired the integration of the crosscutting priorities in ADB operations.<sup>24</sup> Box 4 summarizes staff views and concerns on the PRS.

57. Several training events have taken place around PRS matters. Over 20 seminars have been conducted on subjects related to poverty reduction at the policy and project level, such as poverty and economics, poverty impact assessment, microfinance and poverty reduction, participation, and social protection.

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<sup>21</sup> ADB 2000. *Resident Mission Policy*. Manila

<sup>22</sup> ADB 2003. *Implementation of the Reorganization of the Asian Development Bank*, Manila; hereafter, the review of reorganization.

<sup>23</sup> The Poverty Reduction Unit was established in the Strategy and Policy Department in 1999 to guide ADB in implementing the PRS, monitor progress, and promote awareness on poverty issues in ADB and DMCs.

<sup>24</sup> For further discussions on the limited access to the crosscutting specialists, see paras. 48-52 of the review of reorganization.

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

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

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

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

**DMC priorities.** In many cases, the 40% lending target makes it difficult to align ADB’s operational focus with the priorities of DMCs; most governments want ADB assistance for economic growth and infrastructure.

**Country focus.** ADB’s strategy for poverty reduction should be country based with CSPs as the key tool for planning and monitoring ADB’s contribution to poverty reduction.

**ADB’s strength.** ADB should improve what it can do well (i.e., infrastructure, economic growth, and efficient processing) to contribute to poverty reduction.

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

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

#### D. Partnerships

58. ADB partnership with civil society and international development agencies has become deeper since the adoption of the PRS, both at the strategic and operational levels. Institutionally, ADB has become better equipped to promote coordination and collaboration with NGOs since the establishment of the NGO Center in 2001. NGOs have been closely involved in the preparation of all ADB policies prepared since the adoption of the PRS – particularly, water, energy, environment, and social protection policies. NGOs were directly involved in the formulation of ADB’s new framework for ADB-Government-NGO cooperation for the period 2003-2005.<sup>25</sup> Similarly, ADB has strengthened its relationships with international development agencies by signing memoranda of understanding, with ILO, MIGA, UNDP, the World Bank (WB), WHO and WTO.

59. NGOs have been increasingly involved in different aspects of ADB operations, including poverty analysis and the preparation of CSPs (Box 5). Now, more than 50% of ADB projects involve NGOs during preparation and implementation, up from about 30% during the mid 1990s.

#### Box 5: NGO Feedback on PRS Implementation

Meetings with representatives of about 80 NGOs during the DMC consultations in PRC, India, Kyrgyz Republic, Papua New Guinea, Sri Lanka, and Viet Nam provided the following feedback.

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

**ADB as a Partner.** Involvement of NGOs in ADB activities has increased in the last three years, both at policy as well as project levels. Several NGOs were closely involved in developing CSPs, especially in undertaking participatory poverty analyses. ADB has consulted with NGOs on draft CSPs and several recent policy papers.

**Expectations from ADB.** ADB should play a greater role in advocacy with governments, and capacity building of NGOs. Many stressed the need for direct ADB financing of NGOs for implementing projects.

<sup>25</sup> ADB 2003. *ADB-Government-NGO Cooperation: A Framework for Action, 2003-2005*. Manila.

60. Cooperation with other development partners, including bilateral and multilateral development agencies, has improved. ADB has worked closely with other international agencies, such as the WB and UNDP in particular, on poverty analyses and preparation of NPRSs, and on setting up poverty databases and monitoring systems. Macro level assessments, including economic, governance, and private sector assessments, have been undertaken in collaboration with other agencies in several countries. ADB has also conducted country programming and portfolio reviews jointly with other agencies, including the WB, JBIC, and UNDP, in some countries, and supports the harmonization of processes with other multilateral and bilateral development agencies. ADB has also increased its efforts to mobilize cofinancing of its projects from other partners. In 2002, total co-financing (\$2.85 billion) was twice the amount in 2001, and was equivalent to about half of ADB's total lending for the year.

61. Two factors that have catalyzed the stronger partnerships are (i) expansion of and devolution of responsibilities to RMs; and (ii) establishment of grant funds from several bilateral donors, including Canada, Denmark, Japan, the Netherlands, Norway, Sweden, and United Kingdom. With larger staff complements at RMs, ADB has been able to become more actively involved in collaborative activities both at sectoral and macro-economic levels in DMCs. With responsibility for country programming increasingly delegated to RMs, opportunities to collaborate with partners have increased. The establishment of various grant funds has facilitated closer collaboration with NGOs and bilateral development agencies.

## **E. Lessons**

62. Although it is premature to assess their impact on the ground, operations have become more poverty-oriented since the adoption of the PRS, both in terms of process as well as substance. Poverty analyses have been undertaken and PPAs signed in most DMCs. All CSPs and key policies and strategies have been realigned with the PRS. Projects are being designed increasingly to mainstream crosscutting priorities and enhance their poverty orientation. Awareness among ADB staff of poverty reduction as an operational concept has increased. The assessment, however, reveals some important lessons that need to be considered during this review.

63. First, the conceptual framework of the PRS is very broad, and its flexible application is essential given the large variation among countries in the causes of poverty and opportunities for poverty reduction. The lending target of 40% for PI projects and the sub-sector priorities introduced by the PRS have constrained ADB's ability to respond to DMCs' varying needs.

64. Second, lack of clarity about the PRS lending target and classification system and their inconsistent application have increased costs for ADB. A majority of staff was not clear that the 40% PI target need not be adhered to in each and every country. Many feel that introduction of the new project classification system consumed time and energy without commensurate improvement in project quality. The PRS requirement of making all projects pro-poor was interpreted to mean that every project should have direct poverty intervention components. This diverted staff resources from the fundamentals of good project design, i.e., clarity of purpose and responsiveness to the particular needs of the country. DMC consultations also suggest that borrowing countries to some extent regard the apparent insistence on targeted interventions as a loss of value in ADB operations.

65. Third, simplicity and selectivity, two key ingredients of effective operations, appear to have been compromised in the course of reorienting ADB operations. Project designs have

become more complex, putting additional pressure on resources for project implementation in both ADB and DMCs. The average number of sectors at country level has also increased, especially in smaller and ADF dependent countries.

66. Fourth, nevertheless the PI target has provided an instrument for change. For the majority of staff, this lending target represents the core of the PRS and was the primary instrument responsible for changes towards a pro-poor orientation of ADB operations, both positive and negative.

67. These lessons call for further consideration of the conceptual framework of the PRS. In particular, ADB needs a more effective means of ensuring quality and pro-poor orientation of its operations, going beyond its current reliance on project classification at approval. More effective monitoring and evaluation is needed at the country and sector levels to assess the contribution of ADB operations.

#### **IV. THE CONCEPTUAL FRAMEWORK**

68. This section reviews whether the conceptual framework of PRS, with the three pillars and four crosscutting priorities, remains sound. It also analyses whether sub-sector priorities recommended in the PRS have sufficient rationale. The section also assesses whether the lending target as specified in the PRS has served a useful purpose.

##### **A. Three Pillars of PRS**

###### **1. Pro-Poor Sustainable Economic Growth**

69. Empirical evidence across Asia and the Pacific shows a strong correlation between absolute poverty decline and the rate of growth of real per capita gross domestic product (GDP). The relationship, however, varies across countries and over time. The evidence also suggests that acceleration in growth rates quickens the pace of poverty reduction, and also benefits the poorest, i.e., affects both the 'depth' and 'severity' of poverty.<sup>26</sup> However, growth may have greater or smaller effects on poverty reduction depending on initial conditions, the policy environment in which the growth takes place, and the nature of growth itself.<sup>27</sup> In general, the lower is the level of per capita income and higher the initial inequality in distribution of income and assets, the lower is the poverty elasticity of growth. While some increase in income inequality is likely to occur as a result of faster growth, public policy should aim to keep the increase within limits so that growth remains broad-based.<sup>28</sup>

70. The Asia-Pacific experience strongly suggests that the pillar of pro-poor economic growth is the central feature of an effective poverty reduction strategy. The recent success of

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<sup>26</sup> 'Depth' of poverty measures how far the average income of the poor lies below the poverty line as measured by the poverty-gap ratio. 'Severity' of poverty measures reflects the difference of income amongst the poor and is measured by the square of the poverty-gap ratio.

<sup>27</sup> The 'poverty elasticity of growth', which measures percentage point reduction in poverty for every 1% increase in per-capita income varies considerably across countries – in the 1990 in absolute terms it was highest for the Philippines and Malaysia (-1.7 to -2.0), with much lower estimates recorded for PRC and Thailand (-0.6).

<sup>28</sup> In some countries in Central Asia, South Asia and the Pacific, the increase in income inequality more than offset the poverty reduction impact of growth in income, thus increasing poverty. In Pakistan, for example, poverty elasticity of growth is estimated at (+) 3.6, i.e., there was an increase in poverty with growth due to a sharp deterioration in income inequality.

PRC in reducing poverty provides further testimony to the strong impact of sustained and rapid economic growth on poverty reduction. Faster economic growth would also provide additional resources to the government for undertaking social sector investments. However, the quality of growth does matter. For example, productivity growth in agriculture has a higher poverty reduction incidence as compared to other sectors, due in part to the fact that income inequality is generally lower in this sector. This is particularly important as the majority of the poor are in the rural areas. Assisting DMCs in rural infrastructure, agriculture research, and capacity building will increase productivity in the agriculture sector and have a significant impact on poverty reduction.

71. Two further matters affect growth and poverty reduction. First, broad based growth will be sustainable only if environmental concerns are simultaneously tackled. Environmental issues are at the forefront of development debate in Asia because the fast growing economies have not paid adequate attention to environmental degradation. This has resulted in contraction of forests, erosion of water and soil resources, and increased air pollution. These issues directly affect the poor. Second, the international trading environment may not be as favorable as it was in the 1980s and 1990s, when the economies of East and Southeast Asia recorded high rates of economic growth by integrating with the global economy. While it is somewhat premature to judge the likely trading scenario over the next decade, there are indications that protectionism could be gaining ground in some of the important export markets of Asia. Governments will need to adjust to the changing scenario.

## **2. Social Development**

72. Progress towards meeting the social development MDGs has been mixed in Asia and the Pacific, especially in South Asia (paras. 12-15). Given the broad interpretation of poverty in the PRS, the social development pillar becomes important in the regional context. Most regional governments lack budgetary resources to improve social indicators. Moreover, DMCs often have weak institutions and inadequate service delivery capacity. Solutions to these issues are not easy; but it is clear that unless these countries accelerate the pace of economic growth, it would be difficult to achieve significant improvements in social indicators.

73. The synergies between the various components of human development are important. Education helps improve health, and vice-versa, and both contribute to economic growth. Improving health and education require corresponding investments in family planning, health care, nutrition, and water and sanitation. Without social development, economic growth cannot be sustained for long. The PRS emphasizes the key role of human development in sustained economic development. In addition, the PRS stresses the importance of strengthening social capital, through empowerment of the poor and other disadvantaged groups, to make growth more inclusive and sustainable. Precisely because the performance of the region has been less satisfactory, the pillar of social development needs to be pursued vigorously.

## **3. Governance**

74. The governance pillar provides necessary support to the other two pillars, and reinforces their impact on poverty reduction. Prudent macroeconomic management, transparent and accountable use of public funds, effective regulation and supervision, improved anti-corruption measures, and better law enforcement all have a positive impact on accelerating and sustaining economic growth. Similarly, sound public administration, efficient delivery of public services, and financial and administrative decentralization are key elements in efficient utilization of public funds and enhancing the impact of social sector investments. Recent empirical research

suggests that the quality of institutions has a significant effect on the level and growth of per capita incomes.

75. The PRS called for a greater focus on economic and financial management, particularly in strengthening financial and budgetary systems, enhancing public sector management, building capacities in key ministries, developing corporate regulatory frameworks, and upgrading technical expertise for law making. Other areas emphasized by the PRS are decentralization and devolving of administrative and financial autonomy to local governments, and legal and judiciary reforms.

76. ADB's commitment to promoting governance was reinforced by the approval of the Medium-Term Agenda and Action Plan for Promoting Good Governance (the Action Plan) in 2001.<sup>29</sup> To help integrate governance issues into DMCs' development agenda, ADB prepares country governance assessments (CGAs). The findings of the CGAs are incorporated into the PPA and CSP/CSPUs. ADB's assistance on governance has risen sharply since 2000, through both lending and nonlending operations, mainly for improving or establishing corporate regulatory frameworks, strengthening public administration, fiscal and financial management, and strengthening the capacity of subnational agencies. ADB has become actively involved in promoting anti-corruption and anti-money laundering at both country and regional levels. ADB has strengthened its business processes to ensure civil society participation in key decision-making process of ADB's operational cycle and its policies and strategies.

## **B. Crosscutting Priorities**

77. The crosscutting priorities – private sector development, environmental sustainability, gender, and regional cooperation – were intended to support the three pillars. They are also important elements of the MDGs – gender equality and environment sustainability are explicit MDGs. The PRS does not provide guidance as to how and to what degree such priorities should be supported, and how this should be monitored.

78. Some confusion arose regarding the role of the crosscutting priorities following the change in the composition introduced in the LTSF (footnote 6). The LTSF envisaged mainstreaming gender under the inclusive social development pillar. However, the role of gender in promoting the other pillars was not clearly articulated. As the region's experience shows, investment in women directly is critical for promoting both economic growth and social development. To remain relevant in the region where a majority of poor are women, ADB will continue to regard gender as a key priority for advancing poverty reduction. The LTSF added regional cooperation as a crosscutting priority, which is retained here.

## **C. Sub-Sector Priorities**

79. Along with the broad conceptual framework, the PRS also recommends subsector priorities. The document suggests that ADB should focus on those subsectors that particularly help the poor and directly improve their participation in economic activities.<sup>30</sup> It also calls for

<sup>29</sup> The Action Plan identifies six major areas: (i) enhancing governance quality in DMCs; (ii) elevating good governance to the top of the development agenda; (iii) fighting corruption; (iv) coordinating governance activities; (v) strengthening ADB's capacity for governance operations; and (vi) monitoring implementation of the action plan.

<sup>30</sup> For example, in infrastructure-related sectors, the PRS stresses the need to focus on rural roads, rural electrification, promotion of SMEs, and water supply and sanitation programs. In social sectors, it emphasizes basic education, primary health care and social safety nets for the poor. In agriculture and rural development, the PRS highlights the need to focus on areas bypassed by green revolution technologies.

greater attention to strengthening of rural institutions, more efficient information and technology transfer, micro-finance, and more efficient environmental resource management. There are three conceptual problems relating to the sub-sector priorities specified in the PRS.

80. First, the recommended sub-sector priorities tend to narrow the focus of the PRS on isolated interventions without adequate linkages to the broader systems. For example, investing in rural roads may not have an impact on poverty reduction if these roads do not connect rural people to markets. The network nature of economic infrastructure requires simultaneous support for the entire systems such as national highways, railways, and ports in the transport sector, and power plants and transmission lines in the energy sector. Effective functioning of these systems is a pre-requisite for investments to reach remote or underserved populations. A better approach to encourage pro-poor priorities would be to focus on sector approaches that take a comprehensive view of the sector and ensure that all critical elements of the network are in place to effectively deliver services to the poor.

81. Second, the sub-sector priorities do not fully acknowledge the different levels of development in different DMCs. Causes of poverty, and constraints faced by the poor, differ across countries. In addition, there is variation across countries in terms of public investment priorities. This makes it difficult to have a standard set of priority sub-sectors across all countries. ADB's involvement in sub-sectors should be prioritized through the CSP, and discussed in country specific sector strategy papers, and sector policies and strategies of ADB.

82. Third, a focus on the distribution of extra national income should not detract from enhancing the growth rate of that income. Distribution of extra income can be affected in many ways. Project and sector investments are not the best tools for influencing the distribution of income, not even sector income. More general macroeconomic tools, such as expenditure planning, taxation and pricing, together with social protection provisions, will reach all those who need to be helped, not just specific beneficiaries.

#### **D. Lending Target**

83. The PRS focuses on targeted interventions in implementing the strategy by stipulating that ADB should allocate at least 40% of its lending for PI projects. PI projects are defined as those which disproportionately benefit the poor. Targeting poor beneficiaries through individual projects may not be the most effective or cost-effective manner of achieving the goal of poverty reduction.

84. First, the focus of ADB operations, and DMC priorities, should be on the means to achieve poverty reduction, i.e., the three pillars and the crosscutting priorities. The confusion between goals and means has arisen because the implementation processes of the PRS underplay the three pillars and the crosscutting priorities, and focus directly on the goal of poverty reduction.

85. Second, all ADB operations should aim at poverty reduction, either by direct or indirect means. Indirect methods, as supported by the broad framework of the PRS, are effective for reducing poverty in countries where poverty is pervasive. Targeted interventions are more effective in tackling poverty in countries where its incidence is low, and residual pockets of poverty need to be reached. Therefore, the institutional target of 40% lending for PI projects needs to be reviewed.

86. Third, the efficacy of targeted interventions has been questioned because they are cumbersome to design and difficult to implement. They impose additional costs on both ADB and the borrowing countries. The DMCs also feel that targeting tends to limit the choice of sectors in which ADB's intervention would be most beneficial to them.

87. There is no clear conclusion on the efficacy and efficiency of interventions that have a direct and quantifiable impact on the poor compared with those with an indirect impact on poverty. Debate has focused on three types of indirect interventions: infrastructure investment, financial sector operations, and program (policy-based) lending. Their impact on poverty reduction is not easily quantifiable, but during country consultations, almost all governments favored support from ADB for indirect interventions.

88. **Infrastructure.** Infrastructure is a critical input for stimulating and sustaining economic growth. Infrastructure investments and systems contain a public good component. This includes road networks, major transmission and trunk lines for energy, communications, water, and sanitation, and flood management works that protect whole communities. There is, thus, a large role for public investment in infrastructure provision. Infrastructure operations are employed in all facets of ADB operations. They help expand domestic markets and link remote and landlocked areas to international markets, help rehabilitation and improvement in emergency operations in the wake of disasters and conflicts, play a significant role in regional cooperation, and provide a focus for private sector operations. ADB sees its comparative advantage in financing relatively large investments and related policy reform, to contribute to pro-poor economic growth. This is supported by evaluation results, especially for transport and energy that have consistently the highest success rate.<sup>31</sup>

89. Infrastructure investments contribute to social development in a variety of ways. All infrastructure services have a productive and a social function. Water supply contributes to jobs and production as well as health. Energy development contributes to basic education, nutrition, health through cooking and domestic air quality, and conservation of natural resources. Transport services facilitate both access to and provision of social services. Equally important are the social capital-building effects of community organization around infrastructure investments and service delivery, in both urban and rural areas, and of mobility, migration, and information. Much qualitative analysis has stressed the time poverty in the lives of the poor, especially women. Transport, energy, and water investments that succeed in reaching the poor generate significant time savings for women and children, of fuel and water transport, and of processing of water and fuel before use. Air, water, and land can all be affected by infrastructure investments and services. Lives are lost on roads. Degradation, pollution, and safety impose heavy social costs, locally, nationally, and even globally. The losers disproportionately through such local costs are the poor who may not even be able to access the polluting service. These public bads need to be dealt with through regulation and investments, as part of a pro-poor infrastructure policy.

90. It has often been assumed that infrastructure investment and services would be attractive to the private sector. The experience, even in growing economies, has not matched the unreasonable expectations. Many infrastructure investments, especially network investments, involve large-scale upfront capital and have a long life. It is difficult to match supply to increases in demand, and the number of users is uncertain. The downside construction and demand risks of infrastructure investments are high, and there is little chance of windfall gains from sudden increases in demand. Governments may not be skilled at regulation of private

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<sup>31</sup> ADB 2003. *Annual Review of Evaluation Activities in 2002*, section IV. Manila.

providers, which adds to uncertainty. The limited incentives for private providers is confirmed by the limited private sector investments in infrastructure sectors, and points to the need for guarantee operations to reduce investor risks.

91. **Financial Sector.** An efficient financial sector is an essential element for sustaining economic development. The poorer DMCs often have weak and inadequately regulated financial systems, which are subject to considerable government interventions. The effects of financial sector reforms on poverty reduction are often indirect, with some exceptions like micro-finance initiatives and credit lines for SMEs. The main impacts of financial sector reforms are achieved through creating the conditions for sustainable growth and improved governance, and by establishing efficient and viable banking systems. Financial sector reforms are linked to reforms of the other sectors, such as reducing government financial subsidies to unprofitable and unsustainable state enterprises, developing SMEs to create new jobs, and establishing viable pension and insurance schemes. It is difficult to measure the causal links between financial sector restructuring and regulation and poverty reduction.

92. **Program Lending.** Program lending, or policy-based lending, when done well can have a lasting and powerful impact on economic growth and governance. Programs address key macroeconomic and sectoral constraints through changes in policies and institutional development. They often have strong governance improvement and social security components. Programs are designed to strengthen market mechanisms, including regulation where necessary, and to help make public institutions more transparent, effective and efficient. Strengthening market mechanisms raises the long-term growth potential of an economy, while improving the effectiveness of institutions enhances their capacity to provide better service delivery. However, the full intended impacts are only realized over time. Program lending is an important means of advancing PRS, even though the direct poverty reduction impacts are often difficult to quantify.

## **E. Overall Assessment of the Conceptual Framework**

93. The PRS, in its current form, is broad enough to meet the development challenges of most MDGs. While the broad framework is appropriate, sub-sector priorities tend to narrow the focus of PRS, and do not fully acknowledge the significant variations in development levels in different countries. The linkages between the crosscutting priorities and the pillars of the PRS need to be further refined. Box 6 summarizes feedback on the PRS received during the workshop with DMC officials.

94. Targeting of lending at the institutional level, and the supporting project classification system, lack adequate analytical basis. Practice has encouraged preparation of projects that are often complex in design, difficult to implement, and impose additional costs on DMCs and ADB. The benefits emanating from this practice are often not commensurate with the costs. It is important to emphasize that there is nothing inherently superior about targeted lending in poverty reduction. Indirect poverty reduction methods can have a similar, and often stronger, impact on poverty reduction.

#### Box 6: DMC Perspectives on the PRS

**Framework.** The pillars provide a good overall framework for poverty reduction strategies if interpreted in the relevant cultural context for each country. Capacity Building may be considered as a crosscutting priority, given its key function of knowledge-sharing.

**External Context.** The conditions under which trade takes place are very important for determining opportunities for an economy to grow. How technology can be developed, acquired, and disseminated is also important. ADB may provide indirect assistance in this area through information and advice.

**Partnering.** Governments must take the lead in partnerships by establishing a limited set of agreed targets for country monitoring, and by matching operations to domestic capacities. Partnerships are best organized around budget preparation.

**Priorities.** Country programs should emphasize infrastructure development at national and local levels, microfinance, and private sector development and participation. The balance between targeted and nontargeted interventions, and ADB's support for each, should be determined on a country basis.

**Financial Resources.** ADB needs to expand its financial resources for supporting country programs and poverty reduction, and maintain constant review of its lending terms.

**Monitoring the PRS.** An annual meeting of DMC country representatives would provide a useful mechanism for monitoring PRS implementation.

## V. MAJOR ISSUES

95. This section describes a number of issues that have emerged during the review to date. At this stage, the issues are presented as a basis for discussion. During the remaining part of the review, ADB needs to define its position on each of these issues and draw out the implications for the PRS and its implementation.

### A. Coordination

*Issue: How best can ADB's country programming be coordinated with other MDBs' poverty related processes within the changed development architecture since the adoption of the PRS?*

96. The operational cycle proposed in the PRS leading to CSPs (i.e., poverty analysis, high-level forum, and PPAs) has sharpened the poverty focus of ADB's country level operations. In many countries, poverty analyses and PPAs were the principal vehicles for articulating the poverty reduction targets and commitments by ADB and the governments to work together towards a common goal. However, with the introduction of the PRSP process in countries eligible for International Development Assistance, the context in which these processes are applied has changed.

97. To ensure greater development impact and reduce transactions costs, ADB is harmonizing its country-level operations with those of other multilateral and bilateral development agencies. At the heart of this should be the countries' NPRSs. ADB's support for the NPRSs is contained in the new CSPs as they are being progressively introduced. PPAs played a useful role before NPRSs were formulated, and ahead of the adoption of new CSPs. However, their importance is receding in countries where new NPRSs and new CSPs have been put in place.

98. ADB will continue to work with other development partners to further coordinate operational activities to reduce transactions costs for client countries.<sup>32</sup> Such coordination should include country level planning, implementation and monitoring, country analytical work, and monitoring of achievements of MDGs and other poverty related targets at the country level.

## **B. Targeted Interventions**

*Issue: Should ADB continue to support targeting of resources through specific types of interventions to advance poverty reduction?*

99. Three types of targeting have been used in ADB operations to sharpen its poverty focus: individual/household targeting, geographical targeting, and sector targeting. ADB's experience of operationalizing these mechanisms has been varied. Experience shows that targeting at the individual level has been operationally difficult and resource intensive. It is also not clear if such targeting is the optimal strategy for sustainable poverty reduction in most country settings. The rationale for individual targeting is that market mechanisms, left to their own, would not adequately benefit the poor. Focus on targeted interventions with a corresponding under-investment in upstream infrastructure and services (e.g. supporting micro-finance without strengthening the financial system) is unlikely to achieve the goal of poverty reduction in the long run. Therefore, individual targeting should be used only in cases where there are clearly identified pockets of poverty or groups of chronically poor individuals.

100. Geographical and sectoral targeting are operationally more cost efficient and effective in enhancing poverty impact of ADB operations for several reasons (paras. 35-36). Greater geographical focus has helped increase resources available for the poorer areas. It has also resulted in greater policy attention to the development needs of such areas, and strengthened the institutional capacities to sustain development. By targeting poor geographical areas, ADB has sought to attain synergies in its operations in different sectors, and reduce transactions costs through common assessments, databases, and monitoring mechanisms. Sector targeting has increased resources for sectors that have a direct impact on poverty. This has also enabled ADB to advance its policy dialogue on sector level reforms to improve institutional capacities, and rationalize policy frameworks and resource allocation within such sectors. To ensure ADB's effective role in reducing poverty in the region, the effectiveness of targeted (geographical or sector) approaches should be monitored and key lessons incorporated in operations.

## **C. Lending Target and Poverty Classification**

*Issues: Should a target level of achievement be set for the institution?  
Should the interventions be classified at the project level?  
Is project classification effective in ensuring project quality, or should it be replaced with a broader quality assurance system?*

101. Setting of an institutional target for PI projects militates against the concept of country focus that underpins ADB operations. The composition of ADB operations should be based on countries' varying needs. The experience of implementing PRS shows that the PI target diverted attention away from the pillars and crosscutting issues to individually targeted interventions. The target for PI projects implicitly provides a lower institutional priority to projects with indirect impact on poverty. The target has led to more complex project designs. All ADB projects should

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<sup>32</sup> For more detailed discussion on the development community's commitment to coordination, see High Level Forum on Harmonization: Rome Declaration on Harmonization, 25 February 2003.

contribute to poverty reduction in line with a country's NPRS, and not be led by an ADB-wide target for specific types of project.

102. ADB needs a more effective means of ensuring quality and pro-poor orientation of its operations, going beyond the current reliance on project classification at approval. Classification of projects by itself does not add to project quality. The poverty classification of projects could be retained to serve the purpose of tracking the composition and trends of approved operations at country and institutional levels.<sup>33</sup> However, its use at the time of project approval needs to be reconsidered.

103. The existing definition is restrictive and includes only those operations that can specifically map the project benefits and count the beneficiaries. Application of the poverty classification system has also been costly, due to its resource intensive methodology. ADB needs to adopt a methodology that better and more efficiently captures its contribution to poverty reduction.

#### **D. Monitoring and Evaluation**

*Issues: How should ADB monitor and evaluate its outputs to improve their quality and development impact?  
What aspects of PRS implementation should be monitored?*

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

105. Much monitoring of poverty impact has been undertaken at the project level. This does not fully or efficiently capture ADB's contribution to poverty reduction. Monitoring should also be discussed at the country and sector levels, through CSPs and sector roadmaps, and for ADB operations as a whole. It is necessary to work out what indicators should be used at the various levels for monitoring, and how best to apply ADB and DMC resources for monitoring. There is a concurrent need to strengthen the quality assurance process for new operations, so as to provide feedback to Management on the direction that ADB operations are taking, and allow timely incorporation of lessons learned in ongoing and new operational activities.<sup>34</sup>

106. Monitoring of inputs, outputs, and outcomes of ADB operations needs to be complemented by evaluation of the results. Learning is enhanced by self-evaluation of results by operations departments in ADB and DMCs. Learning can be enhanced further by independent evaluation of results. These can be undertaken at the country and sector level, as well as the project level. Independent evaluation provides a fuller assessment of operations, with a greater focus on their sustainability and impact.

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<sup>33</sup> Classification at approval for individual lending operations was first applied in ADB in 1992 in relation to the five strategic development objectives. In 2001, the classification system at approval was changed to accommodate the PI classification introduced by the PRS.

<sup>34</sup> ADB has established a working group on Results-Based Management in 2003 to identify ways to enhance ADB's institutional accountability.

## E. ADB's Capacity to Deliver

*Issue: What additional actions are required to improve ADB's capacity to deliver the PRS agenda, in terms of skill mix, incentive structure, organizational structure and business processes?*

107. Despite the considerable reinforcement of ADB's human resource base since adoption of the PRS (paras. 53-57), most staff feel that ADB's staff numbers and skill mix still need further augmentation. Demands on ADB continue to grow. The scope of ADB's activities expanded in the 1990s in response to the growing dimensions of development needs in the region. The quality standards of development assistance have risen along with more attention to social and environmental consequences.<sup>35</sup> Finally, the demand for ADB's advisory services grew as the importance of governance and institutional capacity came to be recognized. ADB's resource base is not in line with these growing demands. Apart from an overall resource constraint, an increase in loan processing requirements limits the resources for economic, sector, and thematic work and project administration.

108. ADB is already efficient in its use of staff.<sup>36</sup> It needs to be more selective in service delivery to ease the pressure on its resource base. This requires further refinement of its structural set-up and business processes, and results-based management of staff and other resources. The pool of project team leaders who are tasked to deliver increasingly complex projects and programs needs to be strengthened.<sup>37</sup> Staff quality should be enhanced through recruitment and improved incentives for professional development.<sup>38</sup> There should be more systematic and proactive mentoring for staff, especially new recruits.

109. Higher output quality can only be achieved if the right incentives are in place. The project classification system and the 40% lending target have shifted more resources into project processing, at the expense of project administration. Persistent pressure to meet this target discourages staff from investing time and effort to design genuinely poverty-oriented programs and projects. This also distracts attention from mainstreaming crosscutting priorities. Creating adequate incentives requires greater operational focus on the achievement of results through establishing a more effective quality assurance, and monitoring and evaluation, mechanisms.

## F. ADB's Financial Capacity

*Issue: What changes are needed to improve ADB's financial capacity to ensure its relevance in the region?*

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<sup>35</sup> In response, ADB approved the safeguard policies (i.e., involuntary resettlement in 1995, indigenous peoples in 1998, and environment in 2002) and related procedural requirements. It has also established the inspection functions and recently the new accountability mechanisms, and called for closer collaboration with civil society through approval of the 1998 policy on cooperation between ADB and NGOs and establishment of the NGO Center in 2001.

<sup>36</sup> On a per capita basis, ADB's professional staff averaged \$7.5 million per year per head in loan approvals over the last three years, compared with \$3.7 million to \$4.5 million for peer institutions.

<sup>37</sup> Out of the total 67 professional staff positions created in operations departments between 2000-2003, about 18 positions have been assigned to project specialist positions.

<sup>38</sup> Since 2003, ADB has begun implementing further initiatives to strengthen its human resource management. See ADB 2002. *Study of Human Resource Challenges at the Asian Development Bank*. Manila

110. **Financial Resources.** Implementation of the PRS was based on an assumption that an “adequate level of concessionary funds would continue to be available to ADB”.<sup>39</sup> However, in ADF VIII concessional funds have been subject to unanticipated demands. As a result of resumption of operations in Afghanistan and other post-conflict assistance, ADF resources for other borrowers have been significantly reduced. In addition, delayed payments of ADF VIII contributions have adversely affected the level of commitment authority for new lending to poor DMCs. ADB’s OCR operations are equally important to support its role in poverty reduction, including financing for sustainable economic growth. In this context, ADB should have access to sufficient levels of concessional and nonconcessional resources to finance the implementation of the PRS across the region.

111. There are constraints on TA funds. In 2001, ADB’s Board agreed to finance the gap partially from OCR current income. However, even with trimming TA operations, and identification of savings, a large financing gap remains. The inflow of dedicated TA funds, including those established in response to the PRS, have eased the funding constraints to some degree. However, reduced flexibility and uncertainties about future funding hamper PRS implementation, which by its very nature requires sustained support over the long term.

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

113. High cost-sharing requirements for the borrowing countries have sometimes led to implementation delays of ADB projects due to inadequate counterpart funds. In January 2003, the cost sharing requirements for DMCs were reduced somewhat, especially for Group C countries.<sup>40</sup> A more flexible approach to counterpart funding at the project level would bring ADB’s cost-sharing requirements in line with those of other multilateral development banks.<sup>41</sup>

## G. New Global Challenges

*Issue: Does ADB have adequate resources and framework to respond to the new global challenges (i.e., increasing concerns about security and stability, regional public goods, global partnership for development)?*

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

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<sup>39</sup> footnote 1, page 20.

<sup>40</sup> ADB 2002. *Review of Cost-Sharing Limits for Project Financing as an Element of ADB’s 1998 Graduation Policy*. Manila. ADB’s new cost sharing limits for project loans are: 80% for Group A (with a waiver for Afghanistan for the years 2002-2004), 75% for Group B1, 70% for Group B2, and 65% for Group C.

<sup>41</sup> Inter-American Development Bank and the WB allow lowering of their cost-sharing ceiling for social sector and poverty targeted projects.

115. Assisting DMCs in addressing regional public goods (and bads) is a major challenge for the international community. Some aspects of environmental quality and sustainability, control of communicable diseases, law and order, public policy related research and development, information technology, and trade can only be addressed through joint activities between countries. The financing gap for international assistance for regional public goods is large.<sup>42</sup> ADB is well placed to play an important role in promoting regional cooperation in close collaboration with other development agencies. Lack of financial resources—for both lending and non-lending projects—and adequate instruments may constrain its ability to do so.

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

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<sup>42</sup> Cook L. and J. Sachs. 1999, "Regional Public Goods in International Assistance" in *Global Public Goods*. Eds I. Kaul, I. Grunberg and M. Stern.

**APPENDICES**

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## SYNOPSIS OF THE POVERTY REDUCTION STRATEGY<sup>1</sup>

### A. Conceptual Framework

1. The vision of the Asian Development Bank (ADB) expressed in the Poverty Reduction Strategy (PRS) is “an Asian and Pacific region free of poverty.” ADB’s PRS adopts a broad view of poverty by emphasizing that tackling poverty requires a broader focus than income poverty:

“Poverty is a deprivation of essential assets and opportunities to which every human is entitled... Poor households have the right to sustain themselves by their labor and be reasonably rewarded, as well as having some protection from external shocks. Beyond income and basic services, individuals and societies are also poor-and tend to remain so-if they are not empowered to participate in making the decisions that shape their lives.”

2. The PRS recognizes that while the primary responsibility for poverty reduction lies with the developing member countries (DMCs) themselves, strong and sustained support from the international community is essential given the magnitude of poverty in the Asia-Pacific region. Based on the experience of Asia and the Pacific in tackling poverty reduction, the framework of the PRS, and the Long Term Strategic Framework (LTSF) that followed, is built around three pillars - *pro-poor sustainable economic growth, inclusive social development, and good governance*. The PRS specifies that the three pillars are mutually reinforcing. Sustained pursuit of policies and programs that strengthen these pillars will lead to poverty reduction.

3. **Pro-poor Sustainable Growth.** Experience of East Asia, and countries in Southeast Asia over the last three decades demonstrates that robust and sustained economic growth is the single most important factor in attaining rapid reduction in poverty. Provided growth does not increase income inequality, faster growth would automatically reduce poverty. While it is not clear which particular set of policies will ensure that growth is necessarily pro-poor, it is well understood that labor-intensive growth will reduce poverty faster. Further, the PRS acknowledges that in areas of high poverty concentration, or in poor or remote areas, targeted interventions may be necessary, along with growth inducing policies and investments. The PRS recognizes that along with the government, the private sector should play a pivotal role in poverty reduction. For this, an enabling environment must be established and the financial sector developed. Regional and subregional cooperation can also accelerate growth by enlarging the market size, exploiting economies of scale, and providing better division of labor. Protection of the environment and prudent management of natural resources are also key elements of the PRS. The PRS emphasizes the critical importance of sound macroeconomic management for sustained growth and poverty reduction.

4. **Social Development.** Poverty reduction is more effectively accomplished if a comprehensive program for social development is pursued along with policies for accelerating economic growth. The PRS recommends that effective social development schemes need to be well targeted. Every country should have a comprehensive national poverty reduction strategy (NPRS) that allocates adequate budgetary resources for developing human capital (i.e., basic primary education, primary health care, and other essential services); improving basic social services delivery to the poor; removing gender discrimination; and promoting social protection. In addition, social capital should be strengthened, especially for people subjected to exclusion in one

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<sup>1</sup> A full document is available at “[www.adb.org](http://www.adb.org)”.

form or another, by empowering them and increasing their opportunities for participation in the decision making process.

5. **Governance.** Evidence across countries suggests that quality of governance is a critical determinant of rapid poverty reduction. Governance covers a wide array of activities, actions and policies, such as transparent and accountable use of public funds, efficient delivery of public services, rule of law, sound macro economic management, effective regulation and supervision, sound public administration, financial and administrative decentralization, and anti-corruption measures. Governance is often weak in countries with large concentrations of poverty. Poverty reduction efforts in these countries suffer on account of weak institutions, low accountability of governments, and inadequate participation of stakeholders. The PRS recognizes that the process of improving governance may be slow and challenging, and would require active collaboration between the government, private sector, civil society, and development partners.

6. In addition, four crosscutting concerns – good governance, private sector development, gender, environment sustainability – are an integral part of PRS.<sup>2</sup> The PRS does not provide different weights to the three pillars and leaves the prioritization to country needs. This allows unbundling of the strategy according to country specific needs through the new country strategy and program (CSP) processes.

## B. Implementation Framework

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

8. The PRS also mandates that all ADB loans and technical assistance must contribute to poverty reduction, either by accelerating pro-poor growth, or by focusing on poverty directly. Poverty intervention projects are defined as ones where the proportion of poor people among project beneficiaries are higher than their proportion in the overall population of the country, and in no case less than 20%. The PRS stipulates, “*ADB's desired lending mix will include not less than 40 percent of all public sector lending for poverty intervention*”.<sup>3</sup> The PRS, however, notes

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

<sup>3</sup> This was a fundamental shift because before the PRS was adopted, ADB had committed that at least 50% of all its projects and 40% of lending volumes will be allocated for projects with goals *other than pure economic growth* i.e.

that the target of 40% is based on the assumption that an adequate level of concessionary resources would be available to ADB.

9. The program for action component of PRS identifies a series of institutional changes for supporting the PRS. These include retooling through staff recruitment and reallocation, development of statistical databases, and establishment of a poverty reduction unit to promote and monitor the strategy. The PRS also recommends strengthening partnerships, principally through cooperation in country poverty analyses and co-financing.

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these projects were classified according to *primary* and *secondary* goals of human development, poverty reduction, gender, and environment.

## Appendix 2

**RATIONALE AND METHODOLOGY FOR THE REVIEW OF THE POVERTY REDUCTION STRATEGY****A. Rationale**

1. There are several reasons for undertaking a thorough review of the Poverty Reduction Strategy (PRS). The policy paper on PRS stipulated that a review be undertaken of the strategy after three years of implementation experience. During implementation of the strategy, several issues have arisen that need further consideration.

2. There have been some fundamental changes in the global economic and political scenario confronting the developing member countries (DMCs) over the last three years. The global economic environment has changed dramatically over the last two years, just at the point when the Asian economies were on the path of recovery in the aftermath of the East Asian crisis. For the Asia-Pacific region, which is heavily dependent on international trade and capital flows, sluggish performance of the global economy and uncertainties about the future, is impacting negatively on their growth rates and poverty reduction efforts. The review will examine whether the broad framework of PRS remains valid in the new global environment. The economic outlook of the Asia-Pacific region has also been adversely affected by global security concerns, conflict, and natural calamities. The changed global scenario has brought new challenges and requires a reexamination of the existing strategies to effectively cope with them.

3. Since the PRS was adopted, a new development architecture, focusing on the millennium development goals (MDGs) as their principal targets, has emerged. In addition, the development partners, including Asian Development Bank (ADB), are jointly supporting the development of poverty reduction strategy papers (PRSPs) in countries dependent on concessionary resources. Implementation of the PRS and the overall poverty reduction agenda requires better partnerships between international institutions and governments, and among the institutions themselves. This could have implications for the PRS.

4. In addition, there have been several internal changes since the adoption of PRS. ADB has developed the *Moving the Poverty Agenda Framework in Asia and Pacific: the Long Term Strategy Framework of the ADB (2001–2015)* in 2001, and in 2002, ADB formally adopted MDGs as the benchmark for assessing progress in poverty reduction in the region. In 2002, ADB has undertaken a major institutional reorganization to strengthen its ability to better deliver its poverty reduction goal. It is important to understand what implications, if any, do these changes have for the PRS.

**B. Methodology**

5. The exercise entails a comprehensive review to assess whether PRS's priorities and approach remains valid considering changes in the global economic and political scenario, ADB's experience with PRS implementation over the last three years, views of DMCs and other major development stakeholders. The exercise builds on the earlier reviews prepared to assess the PRS implementation.<sup>1</sup> To facilitate the process, the review examines four key areas: what

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<sup>1</sup> ADB 2000. *Implementing ADB's Poverty Reduction Strategy: Action Plan 2000*. Manila.  
ADB 2001. *Implementing ADB's Poverty Reduction Strategy: Action Plan 2001*. Manila..

has been the region's success in reducing poverty; does the conceptual framework of PRS remain valid; what has been the implementation experience with PRS and what lessons can be learnt for refining the strategy; and which specific issues related to the conceptual or implementation framework of PRS merit consideration for change.

6. For undertaking the review, a Task Force of ADB staff was set up in May 2003. The Task Force has been guided by a Steering Committee of Directors General, and assisted by a Panel of senior and experienced staff. The Task Force has reported to the Management Committee.

7. An extensive process of data collection and analysis is being followed in undertaking the exercise. Background papers were prepared on various aspects of ADB operations, and on some conceptual issues relating to poverty reduction. Focus group discussions and individual interviews were organized for different categories of staff totaling about 150. In-country assessments were undertaken for six specific countries, chosen to reflect a mix of concessional and non-concessional borrowers, and diversity in levels of development, and country size.<sup>2</sup> Assessment based on data and analysis has been further enriched by consultations with DMCs through a workshop, and through discussions with civil society. Discussions with selected donors, Management, and staff, were held during the process of review, and further consultations are scheduled. The approach to the review and the draft report were subject to scrutiny by a group of External Advisers.<sup>3</sup> Further consultations within and outside ADB will be held prior to finalizing the report.

**Table 1: Consultations Undertaken and Planned for the PRS Review**

Groups/Individuals Consulted	Consultation Format	Period (2003)
<ul style="list-style-type: none"> <li>Major development stakeholders in six selected DMCs,* including government officials, civil society, academics, and development partners</li> </ul>	<ul style="list-style-type: none"> <li>In-country meetings and workshops.</li> </ul>	<ul style="list-style-type: none"> <li>July-August</li> </ul>
<ul style="list-style-type: none"> <li>Government officials from 33 DMCs</li> </ul>	<ul style="list-style-type: none"> <li>Workshop at ADB Headquarters.</li> </ul>	<ul style="list-style-type: none"> <li>August</li> </ul>
<ul style="list-style-type: none"> <li>Five independent External Advisers**</li> </ul>	<ul style="list-style-type: none"> <li>Meetings in London and Manila.</li> </ul>	<ul style="list-style-type: none"> <li>July and August</li> </ul>
<ul style="list-style-type: none"> <li>Representatives of selected development partners</li> </ul>	<ul style="list-style-type: none"> <li>In-country meetings in the respective capitals.</li> </ul>	<ul style="list-style-type: none"> <li>September-October</li> </ul>
<ul style="list-style-type: none"> <li>ADB staff at various levels</li> </ul>	<ul style="list-style-type: none"> <li>Focus group discussions and interviews at ADB Headquarters and resident missions</li> </ul>	<ul style="list-style-type: none"> <li>June-November</li> </ul>

\* see footnote 2.

\*\* see footnote 3.

*A Report on Implementation of ADB's Poverty Reduction Strategy in Asian Development Fund Borrowers.* ADB. Manila. 2003.

<sup>2</sup> The countries for case studies were PRC, India, Kyrgyz Republic, Papua New Guinea, Sri Lanka, and Viet Nam.

<sup>3</sup> The External Advisers were Montek Ahluwalia, Yujiro Hayami, Justin Lin, Robert Picciotto, and Steve Radelet.