

Poverty Reduction Issues

1 – 10 November 2000, ADB, Manila
Executive Summary of Proceedings

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Key Messages

[¶] References are to paragraphs.

- 1 The prerequisite to designing a good poverty reduction program is a sound understanding of **the nature, sources and causes of poverty**. There are many ways to define poverty. However, the most complete definition takes a **holistic view** that considers the state of deprivation of the basic entitlements of an individual, his/her capabilities for maintaining a minimum standard of living, the lack of protection to his/her vulnerability as well as his/her social exclusion. [¶ 28, 29, 30]
- 2 The complex linkage between growth and poverty reduction is best explained not entirely by the aggregate rate of growth but by the nature and sources of growth in an economy. Analysis of rates and patterns of sectoral growth sheds further light on what kind of growth is conducive to poverty reduction in a particular country. Empirical evidence shows that because of relatively high return to labor, **agriculture development-based and export-led growth from labor-intensive industries contribute sig-**

nificantly to reducing poverty in poor countries. [¶ 5, 25, 35, 56]

- 3 A large proportion of the poor in developing countries live in rural areas and are engaged in agriculture and agriculture-related work. Thus, to make a dent on poverty reduction, there is a need to seriously address the various problems in **agriculture and rural development**. As important as securing land assets is — the improvement of human resources through health and education as well as the development of rural industries need urgent attention too. [¶ 6, 23, 24, 25]
- 4 **Prioritization is important** in both analyzing various strategies and approaches to address the problem of poverty and public spending for poverty reduction. Time and resources are limited and frustration and social unrest result if these are wasted. Various tested tools and approaches to undertake prioritization should be used in resource allocation as well as in poverty assessment and strategy formulation in consideration of their strengths and limitations. [¶ 10, 63]
- 5 The importance of **social safety nets** cannot be overemphasized: not only in addressing the impact of adverse shocks (internal and external) that cause transitory poverty but also in protecting those who are either left behind by aggregate growth or whose position is actually worsened by it. Social safety nets are also important in countries where the poor rely on such support on a long-term basis. Countries differ in poverty circumstances as well as in information, administrative capacity and budgetary resources and therefore care must be taken to come up with appropriate programs. [¶ 9, 40, 41, 43]
- 6 Microfinance services, if used effectively, can make a major impact not only as a form of safety net but also in relieving longer-term or chronic poverty. For over ten years already, **microfinance has proven to be an effective instrument** in consumption smoothing and to a cer-

tain extent in helping the poor build up productive assets. The challenge remains in terms of improving the impact and sustainability of microfinance institutions (MFIs) and in enlarging their products and services to the poor, strengthening their prudential regulations and intensifying their contribution to poverty reduction. [¶ 47, 48, 49, 50, 51, 52, 53, 54, 55]

7 The project development cycle or processes (identification, design, implementation, and monitoring and evaluation) can be made more poverty sensitive. The use of poverty impact indicators, e.g. Poverty Impact Ratio (PIR), can complement conventional economic project analysis and broaden the purpose of projects to address poverty issues. **Monitoring and evaluation of projects are critical** and should be designed not just to gather information but more importantly to translate the information to help policymakers in understanding the impact of projects on the poverty situation, as well as in making sound policy decisions and improving program efforts. [¶ 16, 21, 72, 73]

8 There are new areas, programs and technologies that can be explored to help in poverty reduction. The use of **information technology** in improving communications, education and productivity is one of the ways in which poverty can be addressed that can complement the traditional or direct measures of poverty reduction programs. Also research should focus on the need to undertake in-depth research on rural industrialization and use of technologies for the development of marginal agricultural areas. [¶ 45, 46]

9 Poverty reduction is possible but in addition to economic and social perspectives, **good governance is a crucial dimension** that should not be left out if success in poverty reduction is to be achieved. [¶ 7, 14, 75, 76]

Opening Session

1. **Dr. R. B. Adhikari, Senior Capacity Building Specialist, ADB Institute, and Officer-in-Charge of the program** welcomed the participants, resource persons and ADB officials to the seminar. **Mr. Shoji Nishimoto, Director, Strategy and Policy Department (SPD), ADB** described the seminar as an important activity inasmuch as the review of poverty reduction concepts and operational issues is a new and ground-breaking effort for the ADB. Nishimoto recognized the initial work done by the ADB Institute on the conceptual framework for poverty reduction in the context of the ADB's developing member countries (DMCs), which would be used as a basis for the seminar's discussions.

2. Nishimoto stressed that the recent adoption of poverty reduction as ADB's overarching goal for all its future activities has significantly changed the way the ADB works at present. Not only has it altered the emphasis of the ADB's overall program but also its general operations have become more strategic and participatory. Loans, technical assistance,

researches and other support activities have been guided now by the individual agreements with each and every DMC within the perspective and goal of poverty reduction.

3. Given the ADB's new direction, Nishimoto believes that improving understanding of poverty and the various approaches to poverty reduction would be necessary. In this regard, he mentioned that an annual action plan has been prepared and a Presidential Commission has been created to monitor its implementation. The plan, among other things, seeks to strengthen country strategies and program formulation, build up human resources and training programs as well as mobilize financial resource for achievement of its overarching goal of poverty reduction. Nishimoto then mentioned that the seminar is the first of what will become a series of seminars that will be conducted on a sub-regional basis in the various DMCs starting next year in close collaboration with the ADB Institute.

4. In his opening remarks, **Dr. Masaru Yoshitomi, Dean of the ADB Institute**, highlighted the key poverty reduction issues confronting Asia, and then explained the research and capacity building and training activities of the ADB Institute and the seminar's scope and objectives.

5. He observed that in Asia, while poverty remains disproportionately high, over the past 30 years it has been reduced through sustained economic growth in the region, particularly in North and South East Asia. Yoshitomi explained that poverty reduction issues are multifaceted, but **economic growth holds the key for reducing poverty**. However, he emphasized that caution must be taken in viewing it as a mechanical or statistical linkage between growth and poverty reduction. The relationship has to be understood as an **interplay of macroeconomic factors and structural and institutional reforms**, that affect growth and its sustainability and consequently contribute to poverty reduction. In this view, he argued that focus should not be on growth rate *per se* but more importantly on the concrete mechanisms for growth. These mechanisms for growth that impact on poverty reduction are in the areas of economic policies, structural and institutional reforms as well in the development of human capital.

6. Citing empirical evidence, Yoshitomi asserted that economic growth that taps the abundant labor supply (i.e., one of the key characteristics of poor countries in general), contributes more to poverty reduction. For instance, since most of the poor are engaged in agriculture or agriculture-related activities, it has been shown that **agriculture development-based growth contributes about 85 per cent to poverty reduction**. Similarly, export-led growth deriving from labor-intensive industries also contributes significantly to reducing poverty in poor countries. Thus, economic policies that promote high returns to labor should be encouraged as these have more impact on poverty alleviation.

7. Yoshitomi further explained that **political and governance aspects play a crucial role in poverty reduction** especially in countries with extreme income inequality. In these countries, the ruling power group, which comprises largely

the elite, usually establishes systems and structures that contribute to the persistence of a high degree of inequality over time. This further aggravates the deprivation which the poor experience not only in income and assets but also excludes them from participating in decision-making on social and economic development that directly or indirectly affects them.

8. Human capital development is essential not only to increase labor productivity and hence growth, but also to increase labor income which then contributes to poverty reduction. Yoshitomi stressed that basic education is indispensable since it is a prerequisite to enhancing skills to meet the demands of new technology. In this regard, the effective establishment of the nexus of formal education, firm-level training and skill formation can contribute to higher growth and help reduce income inequality and absolute poverty.

9. According to Yoshitomi, there are **direct measures to reduce poverty** with varying purposes and impacts. Direct measures such as social safety nets can mitigate the cost of adjustments to internal and external shocks in the economy in the immediate term. On the other hand, public investments in physical and social infrastructure can serve to uplift undeveloped regions and communities that are deprived of resources and opportunities owing to unfavorable initial economic, social and institutional conditions.

10. Yoshitomi stressed that there does not appear to be a universally acceptable or appropriate model for poverty reduction. **Country-specific characteristics and issues** do matter and therefore should be adequately addressed at the time of formulating country level poverty reduction strategies. In-depth country-level studies, extending beyond poverty estimates, analyzing opportunities and constraints in relation to the pace and quality of economic and social development and the level of national and local governance, should be carried out to generate vital information for this purpose.

11. He then went on to explain the current work of the ADB Institute, particularly in exploring post-crisis development paradigms for Asia. The new challenge the Institute is faced with is in its support for ADB's overarching poverty reduction goal, particularly in clearly identifying concrete development mechanisms for poverty reduction.

Overview of Poverty Reduction Issues

Economic Growth Perspective

12. Prof. Ron Duncan of the Australian National University highlighted a broad set of issues concerning poverty reduction and economic growth. First, he said that there has been much rhetoric on the number of people in absolute poverty, the growing inequality and the failings of globalization but little attention has been paid to what has been accomplished in poverty reduction over the past 30 years through economic growth. He cited the People's Republic of China (PRC), whose per capita income has increased by about six-

fold in the past 20 years, as a good example of the benefits of liberalization and economic growth. Concern over rising inequality in the world has been demonstrated in the WTO meeting in Seattle and in the last World Economic Forum in Melbourne but much of the concerns rely on the deceitful use of statistics where arguments have been based solely on the gap between the top five richest and the top five poorest countries of the world. He said one could see a good picture by looking at the changes in the five poorest countries now and years back, and at the fact that countries have progressed and have risen from the lowest ranks, e.g. the Republic of Korea. Moreover, convergence in per capita income has been achieved in many countries of the world.

13. The second issue, which is more critical to current efforts on poverty reduction, is that **absolute poverty has persisted even when economic growth has been rapid**. He explained that researchers, universities and development agencies have paid little attention to identifying how the poor can contribute to and participate in economic growth as well as the constraints that prevent them from doing so. He said that this lack of attention stems from the development thinking over the past 50 years.

14. Duncan briefly summarized the economic theory that has prevailed from the 1950s to the present and how the development thinking in each period has affected the function of development assistance. The sources of economic growth have been identified over the years as physical capital (1950s), human capital (1960s), sound policy framework, research and development (1970s) and institutions including private sector activity (1990s). Significant lessons have been learnt on the limits of development assistance as well as the appropriate sequencing of economic reforms and forms of assistance. There is now a growing recognition that physical and human capital are necessary but not sufficient for economic growth. **Good institutions underlying economic activities are critical to achieve growth**. He argued that capital is scarce in developing countries but this is because the environment is not friendly towards capital, be it public or private. Government activity in production is seldom an adequate substitute for private sector activity, but in order for the private sector to develop, the basic institutions that allow for **secure property rights, impartial enforcement of contracts and internationally-accepted codes of commercial conduct** have to be in place. In turn, these depend upon the legal and judicial system being allowed to function without interference, and a transparent and accountable government and bureaucracy. Duncan explained that secure property rights, together with impartial enforcement of contracts, is the basis for a market-based economy and, thus, for all private sector activity, which is now recognized as an engine of growth and one of the principal means of reducing absolute poverty. Priority in development assistance should then be given to packages of measures and activities that promote better economic institutions.

15. Duncan then delved on the various factors that may restrict the opportunities for the poor to participate fully in the process of economic growth. First is the type of economic

system, i.e., feudal, communal, centrally-planned, “licensed” system, or modern free enterprise system, which determines the ownership and distribution of assets in a country. The challenge in some countries is making an effective and efficient transition from one system to another. The second host of factors relates to the kind of institutions that have been adopted, largely based on the economic system in operation. The social, cultural and political norms of a society can also be considered as institutions that may affect people’s participation, e.g. voting rights or religious norms affecting gender, ethnic or religious groups. The third set of factors includes the kinds of policies followed by the governments that provide opportunity for widespread participation in economic growth. To illustrate this point, he mentioned that import substitution policies are capital-intensive and usually urban-based, and therefore do not promote the labor-intensive development in which many poor countries have a comparative advantage on. Another example concerns the exploitation of resources such as mining development, which does not generate widely-shared growth due to mining enclaves’ limited forward or backward linkages. The government has a big role in making sure that revenues accruing from mining investment can contribute to growth and to the wide sharing of growth. Duncan also argued that the policies adopted by countries depend heavily on the economic systems and institutions that are in place. Such that, if most people do not have secure access to land, it is unlikely that there will be widespread growth through agriculture. If this is the case, the primary income-generating asset to develop is human capital, i.e., through education and training, and good health systems. With the development of “knowledge-based economies”, and the rapid growth of populations, land may indeed be becoming less relevant as a source of growth. Though due to scarcity, its value will continue to increase with economic prosperity.

16. In closing, Duncan pointed out that understanding of the limited participation of the poor in economic growth has led development assistance agencies to emphasize policies that emphasize “inclusive” growth, “quality” growth or “pro-poor” growth through poverty reduction strategies that address such concerns. Knowing the constraints to participation and the required interventions requires an **in-depth understanding of the economic, institutional, political, social and cultural norms of a country**. He believes that such understanding will in many cases take time and considerable analysis. Moreover, it will need to be shared among agencies and maintained and built upon so that the same analysis does not have to be done again and again.

17. In the **open discussion**, an issue was raised with respect to the case of India, where very good property rights reform was undertaken but without much development impact particularly on the poverty situation. Duncan stressed that **property rights reform does not guarantee economic take-off in the absence of good institutions and effective economic systems**. It was also realized that many developing countries face difficulty in implementing property rights reform in view of the existing economic system and institutions. Furthermore, while pointing out the importance of and the difficult reali-

ties for the poor to secure land assets, Duncan emphasized the importance of building up human capital through education and health, considering that land is becoming much less important in production.

Government and Donor Perspectives

18. Mr. Mick Foster of the Center for Aid and Public Expenditure, Overseas Development Institute, London, discussed in particular the perspectives of governments and donors in framework formulation and program approaches to poverty reduction goal achievement. Foster stressed the need for an overall development framework for each country, that aims to reduce poverty in terms of income poverty and human development goals, from which donors can base their assistance. Such framework should have as its key features the following:

- A clear and realistic vision of the government role based on good diagnosis
- Broad national support through consultation
- Objectives linked to resources via an effective budget process
- Monitoring and feedback based on experience
- Appropriate instruments that support government leadership and capacity

19. Foster explained that the formulation of this framework requires a **broader dialogue between government and donors** than the traditional focus on projects or overall priorities for each donor’s program. Aside from seeking an understanding of the development targets of the country, the dialogue can provide a venue for transparent discussion on the direction of shifts in the pattern of resource use, both for government and donor flows. A number of initiatives have been made in this regard including the following: Comprehensive Development Framework (CDF) of the World Bank, the Poverty Reduction Strategy Paper (PRSP) of the IMF and World Bank and the United Nations Development Assistance Framework.

20. Foster then turned to discuss the PRSP which he said has become the most important of the new frameworks, as it serves as the gateway to resources such as the Highly Indebted Poor Countries (HIPC) debt relief, concessional IMF lending and bilateral country allocations and strategy. The PRSP takes a multidimensional view of poverty, and a key feature is that it shifts the accountability back to the **domestic arena**, by emphasizing a participatory and transparent approach, both in formulating the strategy and in implementing and monitoring it. Also the link to the macro economy and to the budget process is strongly defined. The strategy and the document itself must be produced by governments while donors only provide advice on what will be covered and form part of the assessment. However, a number of risks have been evident in the preparation of PRSP. They are, e.g., a question of ownership and accountability because the process is rushed; and over-prescription by donors and instances when donors have drafted the document themselves, making the process and assessment of government ownership and assessment dubi-

ous. Foster cited the difficulty in objectively assessing the design, process and implementation of the PRSP. It has been a major problem in the previous Policy Framework Paper, as judgments are based on a mix of outcome, process, proxy and input indicators whose impacts are likely to be hard to detect in the short to medium-term and harder to attribute to specific policy changes.

21. According to Foster, the problems besetting current aid instruments in relation to poverty reduction have led to a movement toward more **programmatically aid forms**, such as sector or overall budget support. The programmatic approach, whether overall or sectoral, involves agreement on a common strategy and a costed plan, matched to available resources from governments and donors, which is then converted to a work plan, with clear management responsibilities defined, clear criteria for assessment and formalized agreements with the financiers. There are, however, advantages and disadvantages of this approach for both donors and governments. For **donors**, the **advantages** include:

- The opportunity to influence the policy environment
- Reduce fungibility (financing of government spending outside the original purpose of aid, of which the donor would not approve)
- Achieve sustainable benefits by building capacity within rather than outside governments

Among the major **disadvantages** are:

- Reduced visibility of donor efforts
- Reduced control especially when donors have reservations about government priorities and perceived accountability risks
- Problems concerning the adoption of donor procedures of disbursement using government systems

In the case of **governments**, the **advantages** include:

- The opportunity to implement its strategy through donor support in more flexible form versus being led by donors
- The reduction of costs of dealing with multiple donor projects

Major **disadvantages** include:

- High negotiation costs which may involve compromise
- Reduced flexibility to adjust to agreed strategy in the light of domestic rather than foreign concerns
- Possible discomfort from intrusive donor scrutiny and a risk of lost momentum if negotiations are prolonged (they typically take three years).

There are also budget risks since donor funding is easier to switch on and off for budget support than for project commitments and a sudden change in donor disbursement may cause a gap in the budget. Foster noted that the programmatic approach would be attractive for aid-dependent governments, especially where there is a substantial commonality of views between governments and donors on development priorities.

22. In the **open discussion**, Foster clarified that the PRSP applies only to IDA countries. Furthermore, ADB does not require the preparation of the PRSP *per se* but encourages the formulation of a national strategy based on broad-based consultation and dialogue.

Village Economy Perspective

23. Prof. Keijiro Otsuka of the Tokyo Metropolitan University, Japan, gave a presentation on “Poverty Reduction: Village Economy Perspective” focusing on the basic issues involving poverty reduction in the rural areas. Otsuka premised his discussion on the fact that the important assets in rural areas are land and human capital. Thus, to reduce rural poverty, it is essential to increase the amount of land and human capital owned by the poor, to reduce land rent if the poor are tenants, to increase wage rates for the poor by increasing labor demand, and to reduce food prices by increasing food supply. The major policy means to achieve these goals are:

- Land reform
- Investment in agricultural research
- Investment in human capital or schooling
- Promotion of rural industries

Otsuka pointed out that while the theoretical considerations to reduce rural poverty is simple and straightforward, actual policies often result in adverse consequences.

24. Concerning **land reform**, Otsuka argued on the need for a land reform policy that encourages tenancy transactions, contrary to existing programs that discourage such transactions. This will not only increase efficiency and productivity but also will provide a ladder for landless laborers to eventually become owner-cultivators. It has been widely reported that in areas where land reform was implemented, tenants were often evicted and converted to hired laborers. Otsuka explained empirical evidence on farm size and productivity showing that efficiency occurs under a tenancy contract (family-labor dependent small farms) and inefficiency happens in large owner-cultivation with hired labor. The suppression of tenancy transactions under existing land reform blocks the landless poor from becoming share tenants or leasehold tenants and eventually ownercultivators after acquiring more farming experience and larger capital. Otsuka thus strongly stressed the need to design new land reform programs that remove legal obstacles to prevent or suppress share tenancy in Asia. This, he said, would contribute to a reduction in the severe rural poverty associated with landlessness. This, however, should be coupled with a more effective redistributive land reform than what currently exists. Otsuka said that there is an acknowledged difficulty in implementing land redistribution even in cases where the government has a strong will, taking as an example a recent detailed review made on the Philippine land reform program. Market assisted land reform must be sought but the development of an effective market-assisted program would require further in-depth research.

25. Otsuka identified three ways by which agricultural research can contribute to poverty reduction, based on lessons from the Green Revolution. First, it should increase food supply by developing yield-increasing technologies. The significant achievements made by the Green Revolution in decreasing prices in rice and other grain prices for the past three decades argues well for the development of **high-yielding varieties** as a critical component of the research strategy to alleviate poverty. Second, since the poor depend primarily

on labor incomes, the research should aim to increase labor demand by developing **labor-intensive technologies**. Lessons from the Green Revolution show that the effect of the adoption of modern varieties (MVs) on labor demand has been relatively modest and the subsequent adoption of labor-saving technologies (e.g. tractors, threshers, direct seeding, etc.) often offset or even more than offset the earlier gains in labor demand. Third, since the poor tend to reside in unfavorable or marginal agricultural areas, the research should aim at developing **appropriate technologies** for such areas. The important question is what types of technology are suitable for marginal areas that will yield high payoffs in terms of income generation and, hence, poverty reduction. Otsuka strongly criticized the allocation of research resources to the development of high input cereal technology for marginal agricultural areas because the development and diffusion of appropriate technology can hardly be expected. Instead, he suggested the development of new technology for agro-forestry for growing commercial trees, which has high potential since it is more efficient than shifting cultivation. This, he said, will improve the income of poor farmers in marginal areas by increasing the efficiency of land use. He noted, however, that there might be other crops and technologies particularly appropriate for agriculturally marginal areas, where more researches could be focused.

26. Continuing, Otsuka delved on **human capital investment and rural industrialization**. He emphasized that investment in schooling the children of the rural poor will have to play a major role in rural poverty reduction, as he argued empirically for the prominence of human capital in non-farm employment and the increasing importance of non-farm income in rural areas. Finally, he emphasized the need to promote development of rural industries. Further research is needed on policies conducive to rural industrialization.

27. On the question raised in the **open discussion** with respect to some examples of market-assisted land reform approach, Otsuka pointed to the use of land tax that is severe enough so that big land owners will be induced to sell part of their land. Concerning the public sector managed cooperatives, Otsuka shared his bias against such government programs as small farmers can effectively manage the production while the private sector can manage more efficiently the processing activities.

Conceptual Issues in Poverty Reduction

28. Prof. K. P. Kannan of the Center for Development Studies, Kerala, India discussed the main issues related to the nature and dimensions of poverty and its widely accepted meanings and measurements. He mentioned at least four basic views on the concepts of poverty. The first concept is **poverty as hunger**. Hunger is a state of undernourishment, which can be of two types; one due to inadequate intake of food (endemic hunger) and another due to unavailability of food (famine). He said that endemic hunger is the common form of income poverty in many Asian and African countries. The second concept of poverty extends the view of poverty as a

failure of entitlements. Entitlement refers to the command that an individual or family or group can establish over goods and services. This notion of entitlements can be extended not only in terms of commanding food but also other basic non-food consumption goods such as clothing, shelter and safe drinking water as well as ownership of assets, employment, traditional rights and social security. The third concept extends the definition of poverty to the **inadequacy of basic capabilities to access consumption goods**. These capabilities include basic (education and health) and advanced (e.g. political participation, voting rights) capabilities although the former serve as a prerequisite for acquiring the latter. The fourth concept takes a **holistic view** by viewing poverty as a state of deprivation of the basic entitlements, capabilities for maintaining a minimum standard of living as well as the lack of protection to vulnerability and social exclusion. The ADB's view on poverty takes this holistic multi-dimensional view in its definition where poverty is expressed as "a deprivation of those essential assets and opportunities to which every human is entitled" or "lack of access to basic health and education, participation in decision-making and protection against exploitation and external shocks".

29. Kannan stressed that a distinction should be made between **absolute** and **relative** poverty. The former he said is the non-fulfillment of the minimum requirements while the latter is the gap between the bottom and top segments of a society, a measure of inequality. Another distinction that has to be made is between **transient** and **chronic** poverty. The former refers to short-term, temporary or seasonal poverty (e.g. related to the harvest season) and the latter as long-term, structural or persistent poverty. These distinctions, he emphasized, will be important in making poverty analysis and in formulating or prescribing policy interventions.

30. Kannan then discussed at length the various poverty measures based on entitlements and capability approaches and actual applications of the same. These include income:

- Poverty measures [headcount ratio (H), poverty gap (I), severity of poverty-Sen Index (P)]
- Capability measures [Capability Poverty Measure (CPM), Human Poverty Index (HPI) and Human Development Index (HDI), Gender Development Index (GDI)]
- Measures of vulnerability and social exclusion

In discussing these measures, Kannan highlighted a number of insights with respect to their various uses.

31. A prominent issue that surfaced in the **open discussion** was the question of the supremacy of the use of either income or expenditure data in measuring poverty incidence. It was pointed out that India, Pakistan and Indonesia use expenditure data while Philippines and Thailand use income data derived from regular surveys. Kannan explained that there is no absolute truth as to which one is superior but a good rule of thumb is to determine which data is more reliable. While he also recognized the political use of data (switching from expenditure to income or vice versa depending on which shows a better picture), there are instances where expenditure data becomes easier to get because there is a problem of disclo-

sure of income, as in the case of India and Pakistan. In the discussion, it was realized also that expenditure data may pose a limitation in understanding poverty change in times of crisis as even though income declines, expenditure does not because expenditure smoothing happens through sale of assets or money transfers. It was then theorized that expenditure-based poverty captures current deprivation while income-based poverty is a good proxy for long-term poverty reduction. It was agreed that both income and expenditure data are important and, thus, statistical agencies should not abandon the use of either but rather complement existing poverty data as much as possible. Kannan also noted that expenditure or consumption data might have other uses other than poverty (e.g. shift of consumption from food to non-food expenditures). In response to a query on the use of housing index as used in poverty targeting by microfinance institutions, Kannan pointed out to a comparative result where the use of the housing index showed lower estimate of poverty implying that such measure provides a more conservative estimate as it indicates a long-term poverty status. On the use of rapid appraisal, he cautioned the use of this method and advised that it be used only as a starting point and not to rely solely on it.

32. Dr. M.G. Quibria, Senior Advisor, ADB Institute, presented his paper on poverty and growth, focusing on four major questions, namely: What is the fundamental cause of poverty? How does economic growth provides a solution to poverty? What type of growth is good for poverty reduction? and, What kind of environment is conducive to such growth?

33. Quibria explained that the fundamental cause of poverty is either the **lack of assets** or **low asset returns**. He said that a poor person usually has no other asset than labor power and often the returns to it are very low. There are two cornerstone solutions to this problem. The first is to let his assets grow via an increase in the national income pie and the second is for national assets to be distributed equally. The problem with the second solution is that in many poor countries, there may not be enough income to distribute, or income or assets cannot readily be distributed because those who have them will not easily surrender them for the benefit of others. Expropriatory land reform is difficult and so is the adoption of socialism, which may not necessarily result in increased equity. On the other hand, the first solution is supported by the theory that sustained growth reduces poverty because it increases employment opportunities and enhances government income to provide social services. Quibria showed empirical evidences of the inexorable connection between economic growth and poverty reduction even when such growth is associated with higher inequality. He cited the recent Asian Development Outlook (ADO) 2000 report [[online at www.adb.org/Documents/Books/ADO/2000/](http://www.adb.org/Documents/Books/ADO/2000/)]. Based on data from 60 developing countries from the period 1970-1992, they found that such a relationship exists and that a 1 per cent increase in growth is associated with a 1 per cent decrease in poverty.

34. On the type of growth conducive to reducing poverty, Quibria explained that it must be inclusive in that it allows the poor to participate, especially when growth creates employment

for the poor. He also noted that growth that is inclusive but not necessarily equalizing is also helpful. The kind of environment that allows for such inclusive growth as ADO suggests, including **trade openness, macroeconomic stability, market orientation** including market flexibility, **investment in physical and human capital** and **sound institutions and good governance**. After elaborating on each of these conditions, he concluded that historical experience has suggested that the best antidote for poverty is economic growth and the best way to induce growth is to foster the right policies and institutions.

35. In the **open discussion**, there was a considerable debate on the relationship between growth and poverty particularly on the sources and patterns of growth. Questions were raised as to the role of trade openness on growth and on poverty since various countries have had varied successes in having growth with greater trade openness (e.g. PRC was more successful than India), and that in some countries, with or without trade openness, growth has been similar. It was pointed out that the link between trade openness and growth should be taken not based on the aggregate rate of growth but the nature of such growth. The question relevant to poverty reduction is whether greater trade openness increases the demand for labor, particularly unskilled labor. In other words, the link is more in terms of the structure of the economy and therefore the **analysis of sectoral growth rates and patterns** will be helpful in understanding the complex linkage between growth and poverty reduction.

36. Mick Foster made his second presentation on **“Improving Public Spending for Poverty Reduction”**. He placed the challenge of **pro-poor budgeting** within the context of a universal dilemma that governments face in this regard - pressures to spend on a wide range of activities irrespective of revenues, creating the risk of poor quality, high charges on services and exclusion of the poor, corruption, and the resistance to cutting middle-class subsidies constraining spending more to the poor. He explained that there is no economic or social theory for how best to allocate resources for reducing poverty but economics suggests the role of government in correcting market failure and improving distribution of wealth, income and opportunity. He said that it is easy for governments to identify the desired direction of change but difficult for them to build the institutions and support to make it feasible.

37. To address this huge task of establishing a pro-poor budget management, Foster highlighted the important elements in creating the institutional arrangements and incentives to make it work. These include aspects of the planning and budget cycle from a poverty perspective — **diagnosis, resource estimation, planning and budgeting linkage, institutions and incentives, monitoring and accountability**. Foster stated that effective budgeting to reduce poverty needs to be built on a sound overall policy environment, in which a government has defined an appropriate and affordable role for itself, consistent with private sector growth and macroeconomic stability. Policy needs to give explicit priority to poverty reduction, supported at the highest level, based on a disaggregated analysis of poverty and of how government interventions are

expected to impact on it. These interventions must also address fundamental issues of the effectiveness of the budget process and of the civil service in converting policies and budgets to actual implementation. In other words, pro-poor budgeting can be facilitated under the following conditions:

- Political commitment
- Stable state of the economy
- Effective civil service
- Structures that ensure integration of planning and budgeting
- Open and transparent governance structures with opportunities for leverage by and on behalf of the poor
- Constructive but critical engagement by the donor community

38. In the **open discussion**, it was pointed out that concepts and theories in budgeting often do not find their way into actual practice and that a new kind of perspective is needed to implement a budgeting system that is effective and pro-poor. Foster explained that different countries adopt different systems and their effectiveness may only be proven in the context in which they are set up, and in the political will of the leadership to fully implement the system. The use of separate funds for poverty alleviation (as in the case of the Philippines) or a guaranteed budget line for poverty program (as in the case of Uganda) may be effective but may also suffer setbacks especially when crisis erupts. Thus, the budgeting system must be able to consider the various factors that will ensure efficiency and effectiveness. Another interesting debate was on the issue of decentralized systems in budgeting. Questions were raised as to the use of fixed allocations to sub-national levels of government and what revenue streams should be given to them that will develop their fiscal capability and will provide incentives for more economic activities. Foster explained that fixed allocations function as equalization grants and therefore are considered pro-poor. However, there needs to be a careful evaluation of the readiness as well as capacity of local governments to manage the resources before they are given responsibility in terms of devolved services or even the power to generate revenues. It was pointed out that in countries where decentralization has proceeded, it is yet too early to make strong conclusions as to the effectiveness and efficiency of decentralization.

39. **Dr. K. Subbarao, Lead Economist, Africa Region of the World Bank** made a comprehensive presentation on **“Safety Nets for Protecting the Poor: What Can We Learn from International Experience?”** He began with a brief overview of social safety nets including definitions and role in poverty reduction, then continued with a review of experiences on food subsidy and public works programs in selected countries and finally, discussed some overarching issues on social safety nets.

40. Subbarao defined social safety nets broadly as all manners of government policies that protect individuals’ standards of living, such as income transfers, health programs, old age support and education. A narrow working definition of social safety nets will include programs meant to mitigate risks via

providing or substituting for income and/or for consumption smoothing. These include income programs (cash transfers, food stamps and food-related programs with implicit income transfers), income substitutes (fee waivers or vouchers for services) and consumption smoothing (public works). He said that in general, the poor are vulnerable to both idiosyncratic (household specific) and systemic/covariate risks (e.g. crisis, calamities) and that uninsured risks (e.g. AIDS orphans) are also growing. **The role of publicly-funded social safety nets is higher, and conversely that of private sector social safety nets lower, the greater the uninsured risks and the higher the possibility of covariance risks.** Whether governments should address chronic or transient poverty depends on the degree of uninsured risks and the extent and nature of intervention depends on the way an economy’s assets, resources and incomes are distributed. The need is less if the economy distributes income well. Subbarao stated that there are **honest differences in the way social safety nets are viewed currently.** The first is a consumption view wherein transfers are considered a consumption item, incur deadweight losses, often result in work disincentives for both taxpayers and recipients and, therefore, the less the better. The other view takes an investment view wherein social safety nets are considered particularly important during periods of adjustments/crises/shocks to maintain an acceptable minimum floor for social cohesion, prevent irreversible losses in hard times and promote high risk/high return investments by households. However, there are stylized facts regarding social safety nets that have been implemented worldwide:

- Funding levels vary by country
- They do not eliminate poverty
- Many programs have small impacts
- Important high risk groups are often not covered
- They are often not cost-effective and highly politicized

41. Subbarao then drew the attention of the participants to a review of two social safety net programs widely used in Asia — food transfers and public works. Citing specific cases of food transfer programs in different parts of the world, he concluded that there have been moves from **universal towards targeted programs.** He mentioned that countries that switched from universal to targeted programs have lowered costs without hurting the poor (Tunisia, Sri Lanka, Jamaica, Jordan and Mexico). Moreover, the poor benefited from switching to a self-selected targeting mechanism by subsidizing commodities consumed disproportionately by them (Tunisia). The problems remain in food transfers in terms of incentive costs, problem of exit and new approaches needed to link subsidies with education and that a more comprehensive evaluation of programs may have to be done. Regarding public works program, several countries have used this program both as a contra-cyclical instrument and also as a transfer/stabilization program. He said that, unfortunately, rigorous evaluation of public works program is available only for India and Argentina. This is because household data sets are a critical binding factor in such evaluation. Nevertheless, the results of the evaluation showed that the program has contributed to a fall in the severity of poverty, a positive net income gain and significant social gains especially in the

empowerment of women. Subbarao enumerated eight lessons drawn from social safety nets via public works programs as follows:

- Politics do influence beneficiary and project selection
- Providing jobs can take precedence over project quality in all countries
- It is important to design program rules that discriminate in favor of the poor and women
- Time the program when the poor's opportunity cost is low
- Minimize transaction costs of participation (bribes, transport costs)
- Maintain competition between scheme providers (governments, NGOs, contractors)
- Integrate schemes into the locality by forming pressure groups of participants and enhance capacity to determine mutual agreement on a shelf of projects
- Evaluate outcomes periodically and maintain a baseline on participants and control groups

42. Evidence across Latin America, East Asia and Eastern Europe shows strong links between macroeconomic downturns and rising poverty. One estimate shows every one per cent decline in growth increases poverty by 2 per cent. This effect is greater if crisis increases inequality as in the case of Latin America. Thus, **adequate crisis response via social risk management should be a high priority** in terms of maintaining adequate consumption levels, access to basic social services and preventing adverse human capital, impacts and dysfunctional behaviors. Drawing lessons from East Asian countries that suffered in the recent financial crisis, Subbarao highlighted the following key messages in implementing social safety nets:

- Social safety nets should form an integral part of a country's policy and programs. They can be run on a small scale during normal times and can be expanded when crisis hits (it is good to maintain a reserve fund for this purpose)
- Avoid "overkills" and provide the poor with only the minimum consumption needed
- Safety nets that provide current transfers and at the same time encourage investment in assets of the poor are most attractive (safety nets should be considered as investment and not as consumption)
- Programs such as unemployment insurance and public works deserve special consideration in a globalizing world
- Fine targeting may escalate administrative costs, political support may vanish and incentive costs may increase. It is better to select programs amenable to either self-selection or community targeting

43. In conclusion, Subbarao pointed out five broad lessons on the design and delivery of social safety net programs:

- Universal food subsidies have proven fiscally unsustainable and distortionary, with gains accruing largely for the non-poor
- Self-targeted approaches have proven more workable and cost-effective than administered targeting
- The design and delivery of a program can alter outcomes in favor of the poor
- Fourth, cash transfers are particularly prone to poverty traps

and abuse especially in countries with poor information base

- In countries where "everyone is regarded poor", low wage public works can be very effective to screen the needy, provide a transfer, build socially useful infrastructure, and complement the growth process

Finally, Subbarao cautioned that countries differ not only with respect to the extent of severity of poverty but also in information, administrative capacity and budgetary resources and care must be taken to come up with appropriate programs.

44. In the **open discussion**, varied issues were raised particularly on the various country experiences in Asia in implementing social safety net programs. One question asked was why it was easy for Korea to recover from the crisis compared with Indonesia. Subbarao explained that there are two major features of the Korean program. The first is that even before the crisis, a welfare program or sort of a permanent safety net existed and was just expanded. The second is that Koreans were concerned about the quality of their programs. Thus, he suggested that as much as possible, quality should not be compromised in programs especially public works. Otherwise, a fiscal nightmare can emerge without significant welfare impact. He also said that the choice of programs would be critical. For instance, in the case of calamities such as flooding, public works may not be as cost effective as food subsidies. Also the quality of program design may be secondary in times of calamity as the important and immediate goal is to assist the poor and the needy.

45. **Quibria** gave his second presentation, which was on "**ICT and Poverty: An Asian Perspective**". He explained how ICT (Information and Communications Technology) can help in poverty alleviation and factors that can help in its adoption and promotion. First, he explained the scope of ICT. He then identified the direct and indirect impacts of ICT on poverty. The direct impacts include

- Improving market information that will help the livelihood activities of the poor, particularly in farming inputs and products, product marketing and new information for production
 - Creating new employment opportunities in areas where it is difficult to get work (village phone, telecenters)
 - Providing learning opportunities (information access, informal learning)
 - Creating health care services through telemedicine
 - Promoting good governance through e-government and empowerment of people through greater opportunities for participation in identifying and designing public services
- Quibria pointed out that the indirect impact of ICT on poverty is largely through the rapid growth in income that would result from the successful adoption of ICT and the result of the success of selected ICT related products. Finally, Quibria identified broad policies to promote ICT, including those that concern social and physical infrastructure development, institutional development (property rights, enforcement of contract) and education especially at the secondary and tertiary levels. He added that government programs such as the creation of science parks through infrastructure improvement, investment climate improvement and labor skills development

as well as the support of international organizations in providing technical and financial assistance are critical in this regard. He remarked that **openness of government policies with respect to ICT** is important in tandem with **infrastructure and education** in making ICT an important vehicle for poverty reduction.

46. In the **open discussion**, in response to a query on what sort of ICT projects ADB is interested to support, Adhikari explained that a Task Force on ICT has been formed in ADB and most of the programs that it currently supports are those that improve telecommunication services especially those that are directly useful and affordable to the poor (e.g., Grameen telephones/village telephones). Quibria added that in terms of future projects, it is a clean slate and that ADB is open to consider new or innovative programs or project ideas. Foster cautioned that some projects have failed due to inappropriate equipment and therefore this should be taken into account in ICT projects (e.g. computers provided in areas where there is no electricity). He also noted cases where technology is being pushed without keeping sight of the overall project goal.

47. Dr. Nimal A. Fernando, Senior Project Economist and Head, Focal Point for Microfinance, ADB made a presentation on **“Finance for the Poor: Microfinance Development Strategy”** explaining the basic concepts of, and the development strategy of ADB on microfinance. He explained that ADB defines microfinance as the provision of a broad range of financial services such as deposits, loans, payment services, money transfers and insurance to poor and low-income households and their micro-enterprises. The effect of microfinance on poverty is based on four key points:

- It improves resource allocation in an economy, thus promoting growth
- It enables the poor to smoothen their income/consumption, thus reducing the severity of poverty
- It enables the poor to build assets, thus increasing their income-earning capacity and reducing vulnerability
- It facilitates risk management through insurance savings

He added that **microfinance has significant empowerment effects** on the poor, especially for women who play important roles for poverty reduction. The greatest concern in microfinance is that the majority of the poor and low-income households are outside the framework of formal finance and that the retail institutional capacity for microfinance services is limited (in terms of expansion, fund leveraging, delivery mechanisms, lack of vision and commitment, and subsidy dependency), resulting in poor outreach to those that need such services most. In its more than ten years of microfinance experience, ADB has drawn the following lessons:

- It is necessary to adopt the financial system development approach
- Clients are more concerned about access to quality services than the cost of services
- Demand for savings services is strong
- Strong retail institutions are essential to have a significant poverty reduction impact
- Considerable technical assistance is essential for capacity building

- Social mobilization is necessary for microfinance
- A broad range of institutions is required to expand outreach

48. In view of the importance of microfinance for poverty alleviation and considering the problems that face microfinance development, Fernando explained ADB’s strategy in this respect. He said that the overall goal is for **poor households to be ensured of permanent access to institutional financial services** at minimum transaction costs. Thus ADB will support the development of a sustainable microfinance system which can provide diverse services of high quality. Fernando stressed that ADB has to play a catalytic role since a large amount of resources are needed for microfinance development and that ADB and other funding agencies cannot meet this demand individually or collectively. This will entail leveraging assistance to bring about necessary policy reforms, supporting development of critical financial infrastructure, viable micro finance institutions (MFIs) and financial technology, social development, and innovative programs. Thus, the strategy has to be broad in such a way that it will, among other things, exercise selectivity in its operations, broaden the scope of financial sector reforms to include microfinance, build institutions and promote pro-poor innovations and social intermediation through helping the poor participate actively in microfinance services as well as to shift financing modalities from on-lending to developing sustainable systems.

49. Finally, Fernando enumerated the implementation strategies that will be adopted by ADB with respect to microfinance development:

- Mainstream microfinance operations within ADB
- Use ADB’s existing modalities of assistance more effectively and efficiently
- Enhance ADB’s private sector operations in microfinance
- Build ADB’s institutional capacity; closely coordinate with other funding agencies
- Monitor implementation of the strategy systematically and review the strategy after 3 years of implementation

Just before closing the session, Adhikari made the following interventions by raising four questions for discussion:

- Do poor (micro finance borrowers) graduate from poverty or do micro finance measures just help them in their consumption smoothing, with the poverty trap *per se* perpetuated?
- What about prudential regulations of MFIs: Should appropriate regulations be developed, should central banks be relied upon?
- What measures should be taken to ensure MFIs’ sustainability?
- Should Grameen Bank-type microfinance go beyond group lending — e.g., monitoring-based payments rather than group lending, savings mobilization, etc.?

50. Mr. Benjamin Quinones, Program Coordinator, Asian and Pacific Development Center (APDC), Kuala Lumpur, Malaysia, presented a paper on **“Microfinance As An Instrument of Poverty Alleviation”**. He focussed his discussion on key issues in microfinance and the steps governments

should consider in its development. The first set of issues concerns the demand for financial services of poor households. Quinones argued that contrary to the common notion, poor households do save but they have small financial savings due to the lack of dependable, convenient deposit services, since most of them are costly to use, rigid, and typically have low and often negative real rates of interest. There is also a demand for credit among poor households. The poor have various uses for credit such as protection (loosen liquidity constraints), promotion (purchase of new technology) and super-protection (purchase insurance or other assets). There is thus a need to have a systems framework for the process of matching the supply and demand for financial services to meet the variety of financial and non-financial requirements of the poor. Also, it is essential to assess the commercial viability of the system and to see each institution as a separate locus of sustainability. The second set of issues regards the benefits of credit to the poor. Quinones, citing empirical evidences, pointed out that MFIs in Asia compared with those in Africa and Latin America, have a more diversified portfolio to meet both protectional and promotional uses of credit by the poor. Also, the long-term sustainability of MFIs contributes to reducing the real cost of credit and to greater margins of benefit per client. Studies also revealed that macroeconomic growth encourages greater promotional use of credit.

51. The third set of issues concerns the design of effective microfinance programs. Quinones said that the programs that have greater impact on poverty reduction are those that are designed to have a **cost-effective instrument for targeting the poor**, are **financially viable**, and offer **sustainable financial products and services**. He emphasized that both targeting and sustainability are choices. This means effective targeting and sustainability of programs are achievable if mechanisms, procedures and management are set up and operate well. Economies of scale can be achieved in microfinance delivery either through individual lending or group-based lending or by either increasing clients of existing MFIs or through the proliferation of small-membership-based MFIs. There is, however, no best practice concerning the manner in which outreach is achieved. The last set of issues deals with creating a conducive policy environment for microfinance. There are at least three major issues in this respect:

- Existing financial policies, regulations, standards are suited largely for collateral-based lending. In some countries, there are policies or regulatory guidelines on microfinance but these are only applicable to MFIs that converts into formal financial institutions
- There is a need to have a generally accepted performance standard for evaluating financial standing and creditworthiness of non-bank MFIs
- To address the risk features of NGOs/non-bank MFIs, there is a need to ensure that they establish adequate reserve funds or standby commitments, acquire well-trained internal and external auditors to conduct periodic audits, ensure adequate provisioning for loan losses, and be required to be well-versed in both traditional banking functions and poverty-oriented lending

52. In closing, Quinones laid down the steps governments should consider in microfinance development:

- Provide capacity building support to MFIs and not organize its own programs
- Support the establishment of national apex bodies and strengthen them to support savings mobilization and micro-enterprise development
- Help build a database on requirements for strategic resources of MFI-financed enterprises
- Support networking of MFIs for sharing information, experiences and expertise

53. Dr. R. Meyer, Professor, Ohio State University and Consultant, ADB, provided comments on the subject of microfinance and on the presentation by Quinones. He said that the thinking and perception on poverty and finance has broadened and that **impact, outreach and sustainability**, the three objectives that have to be achieved by MFIs, can be addressed by governments directly or indirectly through government policies, infrastructure and social development. With respect to these three objectives, he surmised that there is competition among them, depending on the program design. For instance, an increase in outreach can increase the cost of the program and affect sustainability. Similarly, a focus on the very poor may lead to decisions to lower interest rates, which may result in the unsustainability of the program. Meyer posed some questions on areas where there are knowledge gaps at the moment:

- When and where will microfinance make the most impact? When does credit become a burdensome debt?
- What are the possible tradeoffs between depth of outreach and sustainability?
- Current MFIs in most cases are inflexible in their loan amount and number of services while clients need more flexibility
- What is the role of regulations in microfinance?

In this respect, Meyer believes “formalizing” MFIs may bring more harm than good and that governments must adopt a hands-off approach on MFIs since government involvement would inhibit their innovation and creativity. He strongly believes that apex bodies should only exist to provide the necessary support, training and promotion to MFIs rather than to regulate their operations.

54. In the **open discussion**, Quinones responded to some of the comments made by Adhikari in an earlier session and by Meyer on his presentation. With respect to regulations, he said that there are good and bad regulations and so not all regulations are bad. An example of a bad regulation that can kill MFIs is the imposition of collateral-based lending. In contrast a good regulation may be the establishment of a credit-rating institution for the poor. The reason for the creation of the apex bodies is because there is still a question on the appropriateness of the role of the central bank in monitoring MFIs. Also, the current apex bodies that have been established in some countries were created in response to donor institutions which require various reports and conditions. Governments saw the need to have a hub or coordinating body for microfinance development. It is still unclear as to what other roles these apex

bodies should take. This issue is also related to the ongoing debate on the developmental versus the monetary and fiscal role of the central bank in microfinance. Will there be a need for central banks to set aside their developmental role to another institution? This, he said, is an issue that will be tackled in a regional conference in October/November 2001 in Thailand. The conference will also shed light on the institutional framework and policies that should be adopted to promote the developmental role of apex bodies. Quibria made his intervention by pointing out that empirical studies of Bangladesh confirm that Grameen-type microfinance has been extremely successful in **smoothing consumption of the poor**. However, the picture is not that clear in terms of the cost effectiveness of microfinance measures in reducing poverty. There is also this question of ensuring sustainability and the positive impacts of such policy measures. Finally, policymakers should move one more step forward by considering the idea of technology and linking it with microfinance.

55. Many questions were also raised between **tradeoffs between impact and sustainability**, and the participants noted that there is no clear-cut answer to this and that there are various approaches that can be taken. One participant pointed out that the rules for evaluating microfinance should be different since it addresses a social objective. This also answers the question that if microfinance is used mostly to achieve consumption smoothing among the poor, then investments are worthwhile at least from the social point of view. Quinones explained that it goes back to the tradeoff between sustainability and impact. He said that in the case of Grameen Bank in Bangladesh, it was successful in poverty reduction but sustainability was not as good as in Latin America. But in Latin America, the clientele are not the very poor compared with Bangladesh. Finally, it was emphasized that poverty has many dimensions and that microfinance is only an instrument but if used effectively, then it can make a big impact on poverty reduction.

56. Prof. Peter G. Warr, Australian National University (ANU), spoke on “**Sectoral Growth and Poverty Reduction In Asia**” by presenting largely the results of his empirical investigations in tackling the issue of what kind of growth is conducive to poverty reduction. Does sectoral composition really matter? Warr began by setting the discussion in its proper perspective by explaining the conceptual framework on the relationship between growth and poverty. He said that economic growth is an intermediate variable to poverty reduction and it is not the only thing that affects it. **Redistributional effect** (size of and change in the economic pie and distribution) also acts as a proximate determinant to poverty reduction in tandem with economic growth. These two intermediate variables are in turn affected by economic policies and other external factors (technological development, international price changes, geography, etc.). He explained that the quality of economic growth (determined to a large extent by the sectoral composition of growth) is therefore largely affected by the economic policies of a country and these matter very much when considering whether that growth will impact greatly on poverty reduction.

57. Using cross-section data across several countries in Southeast Asia (Indonesia, Thailand, Philippines) as well as in South Asia (India) and the Far East (Taipei, China), Warr examined the relationship between accomplishment in poverty reduction and the rate of economic growth in the agricultural, industrial and services sectors. Interesting results and evidences were revealed by his study on the **importance of the sectoral composition of growth in reducing poverty**. In the case of Southeast Asia, he found that agriculture matters, while services matter even more. But industrialization has not been poverty-reducing. In the case of India, both agriculture and services are important for poverty reduction but not industry. In the case of Taipei, China, growth rates of agriculture and industry are important but not services. The results strongly show the effect of economic policies on growth and poverty. If policies are biased toward the urban sector and highly centralized and capital intensive industries, industry will not contribute to poverty reduction. The growth in services is even more important in the case of Southeast Asia because of its highly labor intensive nature.

58. Warr’s presentation raised many questions. On a query regarding whether it is possible to investigate the interdependence of the different sectors so that a combination of growth strategies can be investigated over time, he admitted that the empirical analysis assumed that the growth of different sectors are independent but in reality they are interdependent. He said looking at the interdependencies will be beneficial for policy but unfortunately they are not captured by statistical analysis. One of the participants asked about the importance of pro-poor policies and redistributive measures in explaining poverty reduction apart from economic growth. Warr, citing evidences from Thailand, explained that the various poverty programs and social safety nets that have been implemented, while poverty-reducing, are not significant enough to explain long-term impact on poverty reduction. Regarding the suggestion to further disaggregate the sector so that, for instance, services can be decomposed into agricultural-based services and industry-based services, Warr commented that it would be interesting to find out the results. But at the moment, he have to just start with aggregate measures, study the implications of the results and then build up more studies along the way.

Operational Aspects of Poverty Reduction

59. Mr. Karti Sandilya, Manager, Poverty Reduction Unit, ADB, gave a brief overview of the main features and implementation process of **ADB’s Poverty Reduction Strategy (PRS)**. He explained that the PRS has adopted poverty reduction in Asia as its overarching objective founded on three pillars: **pro-poor sustainable economic growth, social development, and good governance**. ADB has targeted 40 per cent of its public sector lending for poverty interventions. The PRS is linked with the International Development Targets (IDTs) and takes a broad approach to poverty reduction. ADB currently promotes the development of a national strategy for

poverty reduction that is widely participative and not exclusively a government strategy but considers the other stakeholders as well. ADB's Country Strategy and Program goes into various processes. Poverty analysis is first done and this is discussed in a high level forum. Then a Country Operational Strategy (COS) is formulated and this includes how ADB would like to be involved. Then a partnership agreement is signed between the Government and ADB that is also based on the IDTs. The Country Assistance Plan (CAP) is formulated and from it a Country Strategy and Program (CSP) is developed.

60. Mr. Stephen Pollard, Senior Economist (Poverty Reduction), Poverty Reduction Unit, ADB and Warr continued the discussions on the PRS by explaining in detail the **ADB Poverty Analysis Framework**. Pollard emphasized that the framework for poverty analysis developed by ADB is not a straightjacket, but only serves as a guide, a standard for internal harmonization and as an easy reference. It is actually also work in progress, as updates and changes are made based on operational experience. He then explained that the rationale for poverty analysis is based on three factors. The first is the need to examine more clearly the relationship between economic growth and poverty reduction. The second is to generate a broader understanding of the complexities of factors that cause poverty, which include political economy, institutions and other factors. The third is to develop strategic choices in terms of institutional changes, policy reforms, investments and action agenda for the short, medium and long-term period.

61. Pollard noted that poverty analysis can be helpful not only for ADB's understanding but also for DMCs in **building consensus and defining their national strategy for poverty reduction**. It is also helpful in managing and monitoring the process of poverty in their countries. Moreover, it assists the development community not only in the matter of information but also to effect greater consistency and coherence in their development activities. The idea of poverty analysis, he stressed, is not to overanalyze but to optimize resources by using existing studies, combining quantitative and qualitative tools and capturing various dimensions of poverty in the process. In the context of the participative approach, the analysis should make use of consultative processes at all levels and arrive at strategic options for debate at high level forums.

62. Warr continued the presentation by explaining the contents and the actual document of the poverty analysis. He explained that such analysis includes the causes of poverty, the manifestations of poverty, methodologies in place and the strategic options available. Emphasis is made on the constraints and opportunities and combined qualitative and quantitative tools used in the analysis. The document is in three major parts, covering: Poverty Profile; Responses to Date; and Poverty Reduction Strategic Options. This document is prepared by the DMCs and therefore it is government-organized and owned based on consultations with various stakeholders.

63. In the **open discussion**, Pollard emphasized that when undertaking a poverty analysis, duplication in terms of studies is avoided and effort is made to contribute to existing understanding. He said it is not as if ADB has not done it before but this is a refinement of what has been done. For instance, in trying to understand the poor, we may want to study the wealthy because this is related to some governance issues. He also noted the difficulties of prioritization since there is always a long list of development concerns that are important for poverty reduction. But the question is where investment should be placed to create the biggest impact. To get this answer, a deeper knowledge of poverty is needed. He stressed that ADB's approach is in knowing the nature of poverty and not just the trend, and determining what to do about it. He also noted the importance of harmonizing work with international development agencies. For instance, UN-ESCAP, APEC and ASEAN have renewed interest in social safety nets and there is a need to link these initiatives to create synergy and also not to involve much of government's time in similar efforts. Regarding the question of participation, Pollard cautioned that there are many opportunities for participation by various stakeholders but there is a need to be realistic that the process takes place where **participation can be maximized**. Regarding the question of what if ADB and governments have a difference in perspective, Pollard responded that ADB only takes the country plan as its guiding framework. He also explained that while the PSR is supposed to be prepared by the DMCs, there are instances where ADB is a major player especially in small states such as in the Pacific Islands and for countries that request ADB's assistance for its formulation.

64. Ms. Isabel Ortiz, Economist (Poverty Reduction), Poverty Reduction Unit, ADB presented a **Poverty Analysis of Kyrgyz Republic** and the importance of the recently formulated National Strategy for Poverty Reduction (NSPR) in the development challenges it faces. Ortiz explained that the Kyrgyz Government is progressive and committed to reform. But, the country has insufficient fiscal resources to solve its huge social problems and to finance other development activities. Thus prioritization is needed in order to address the various problems of the country. The NSPR therefore was formulated (written entirely by the Government), outlining the country's development priorities with a focus on poverty reduction objectives and a three-year framework to achieve them. The NSPR seeks to determine a new economic rationale to promote **socially-inclusive growth** in the context of **current resource constraints** and to strategically identify the post-transition development model of the country. The NSPR formulation also involves the various stakeholders for consultations. The formulation has taken a substantial amount of time, however, and is expected to be completed by December 2000. She reiterated that the NSPR is an opportunity to ensure the prioritization of the development agenda at the very beginning.

65. In the **open discussion**, questions were raised on the current situation in the country. A participant from Kyrgyz pointed out that the main resource now of the country is its people and the government's role now is to involve them in

the process. He also stressed that the difference between then and now is that the old government did not consider institutional reforms but these were now considered by the new government. Ortiz, however, pointed out the issue which the Government of Kyrgyz has to consider is what should be strengthened further in order to be able to move beyond the planning phase to actually meeting the targets of the plan.

66. Mr. C. B. Dark, Senior Poverty Reduction Coordinator, Programs Department West, ADB presented the **Participatory Poverty Assessment (PPA) in Lao PDR**. He explained that the PPA is a poverty analysis approach that records the experiences and concerns of the poor in order to initiate and identify more effective forms of public and private actions to alleviate poverty. It therefore provides a **feedback to policymakers that find its source in the poor themselves**. Its features include, among others, the integration of the various forms of knowledge on poverty from statistical, cultural, anthropological, institutional and economic sources as well as a process that comes from below which allows the voice of the poor to have a significant role in the assessment and formulation of strategies and programs. Dark then related ADB's experiences in two sites selected for the PPA. The process resulted in a more specific definition of poverty in the country, its causes and the solutions to address it. In the study sites, poverty has been measured by the degree of rice sufficiency and livestock. Thus, the causes of poverty have been identified by looking at these problems. However, there are other factors that have been identified as not directly related to rice and livestock which include lack of village leadership, relocation, insufficient health services, too many children, lack of commercial skills, insufficient education and lack of government assistance. In the PPA approach, the people are consulted in identifying the main solutions to poverty and this has produced a long list of concerns, which would help policymakers in formulating programs to address the problems of the village site or in designing programs for poverty alleviation in other areas. The people also have identified the main solutions including the resolution of cultivation-related issues as well as the need to increase livestock holdings through disease prevention programs as well as provision or access to funding.

67. Mr. Brahm Prakash, Assistant Chief Economist, ADB, moderator of the session, remarked that Dark's presentation represents an education and reorientation for the ADB. It has impressed on ADB that to make a dent in Laos or in any other similar place, there is a need to **start from the bottom**. He said that people-based activities would be a good start to learn the true needs of the poor instead of designing programs that would not be effective and would only put the country in debt. The presentation also illustrates the complexity of poverty especially in remotely located societies, where the PPA approach can be very useful.

68. Pollard, using the **Federated States of Micronesia (FSM)** as a case study, presented a **Poverty Reduction Strategy Formulation**, using the SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis. In explaining the use of

the approach, he explained that analyzing poverty reduction requires an understanding of the various factors that affect it. He turned the participants' attention to a conceptual framework that shows the various steps or preconditions that lead to poverty reduction. He said that these factors are arranged like bricks placed one over another, and can be likened to a natural order of prioritization wherein you start at the bottom to build up to the top. Thus, the process toward poverty reduction moves from **civil and social order** to **good governance** to **contract and institutional rules and regulations** to **effective markets** to **pro-poor investment** and finally to **pro-poor growth and poverty intervention** that lead to poverty reduction. He said that sound institutions and policies along these key elements must be in place. In the same manner, the strategy formulation for poverty reduction starts with a situation analysis, which requires several steps to achieve the goal of poverty reduction. Here, the SWOT analysis is important as the identification of strengths, weaknesses, can lead to the identification of opportunities and strengths, which will help identify the bottlenecks and priorities, and then alternative strategies can be formulated from which a major set of strategies can be selected that will help achieve the goal of poverty reduction. Pollard then went on to apply these principles and steps in the case of FSM. He emphasized that the SWOT approach requires a good understanding of the country so that the indicators can be interpreted well and a more sound identification of strengths and weaknesses be made.

69. In the open discussion, a question was raised on the difference between SWOT analysis and the LogFrame matrix (logical framework) being endorsed by World Bank in development strategy formulation. Pollard said that both approaches are important tools used in strategy formulation. Prakash added that the LogFrame approach is a generalized-problem analytical framework, which is used to find out the problems and identify solutions to fix them. In the case of SWOT, the approach presumes that there is a system that is working but analyzes how it is working and examines how problems can be resolved or how the system can be improved. Pollard said that similar questions could be further clarified during the following session where comparisons of the different approaches would be discussed.

70. Mr. Alessandro Pio, Senior Programs Officer, ADB, spoke on: **"Poverty Reduction Strategy Formulation, A Case Study From Viet Nam"**. He began by giving an overview of Viet Nam and the status of its poverty reduction strategy formulation. He said that Viet Nam has achieved significant poverty reduction during the 1990s. But, this has been accompanied by **rising inequality** as well as an **urban-rural poverty gap**. There are also large disparities in regional poverty. Poor people are also very vulnerable to climate, market forces and family circumstances. Viet Nam is still in the process of coming up with a poverty reduction strategy. He explained that to avoid overlap, ADB and the Government of Viet Nam are working together to formulate a single strategy. However, Pio explained that within the Government there are at least two agencies formulating a poverty reduction strategy, i.e. MOLISA (Ministry of Labor, Invalids and Social Affairs) and MPI (Ministry of

Planning and Investment). Aside from ADB, the World Bank and IMF are also involved in strategy formulation since they are processing structural adjustment facilities and assisting the MPI in the development of an Interim PRSP.

71. Pio continued the discussions by explaining the various methodologies that can be used in formulating a poverty reduction strategy and pointed out some of the features and limitations of these approaches. He said that the SWOT, Comprehensive Development Framework (CDF), and LogFrame are all helpful tools but what will be important is prioritization that would be needed in the end. All the approaches have common characteristics in that they help in making prioritization easy. However, pointing to some limitations of using these approaches, Pio mentioned that in the case of CDF, while the approach is exhaustive, it is also an exhausting experience to fill in all the boxes in the table. The question then is how detailed can you get when in the end you are stuck up with the problem of prioritization due to limited resources. The LogFrame approach provides a logical way of analyzing the problem but the table has no column on risks and assumptions. Thus, it seems that there is a leap of faith required in achieving the objective. Therefore, he suggested that there is a need to undertake an **intuitive analysis of operations and linkages** backed up with some **modest quantitative simulations**. These activities would allow for the prioritization that will be needed in the final choice of strategy for adoption. He stressed that the strategic approach requires prioritizing and undertaking such intuitive analysis and simulation will complement any of the existing approaches. He then explained how this could be done as in the case of Viet Nam. Finally, Pio left some remaining challenges for Viet Nam in its strategy formulation in terms of coming up with a common strategy, the challenge of prioritization in the choice of strategy and the various analytical issues in program and project formulation and implementation in terms of poverty definitions and targeting.

72. In response to several questions related to the formulation of strategy in Viet Nam during the **open discussion**, Pio acknowledged the complexity of formulating or designing the strategy in the country since the biggest challenge is in the special nature of coordination among the 11 ministries or agencies of the government. In addition, there is a second level, which is at the province where participation is also needed. As an outsider, it is difficult to sense the direction or stage at which the design is taking place and this makes the work difficult. Regarding participation of the poor in poverty assessment, Pio noted the donor community's involvement in poverty assessment activities in five different places of the country where the poor have shown active participation.

73. **“Incorporation of Poverty Reduction Issues in Projects — Analytical Framework and Illustrations”** was the topic tackled by **Mr. Manabu Fujimura, Economist**, and **Mr. Nigel Rayner, Senior Economist, ADB**. Rayner first presented the findings of his study on **“Poverty Impact of Transport Projects — Some Issues of Project Design”**. He explained that the study reviewed 24 transport projects from 1985 to 1999, and the selection of these projects was based on those projects

with the explicitly stated objective of poverty reduction and those which mentioned the same as their desired outcome. The results of the analysis showed that on average, transport projects scored 2.9, which is close to satisfactory.

74. Fujimura presented the essential features of the draft **“Handbook for Integrating Poverty Impact in Economic Analysis of Projects”**. He clarified that the handbook is a work in progress and a collective effort of various departments of ADB and that comments and suggestions are very much welcome before it is finalized. Fujimura explained the main features of the handbook by first going through a conceptual framework on how project economic analysis that considers impact on poverty can achieve both growth and poverty reduction via meaningful shifts of resources to the poor through more pro-active poverty targeting. He said that this framework provides the basis for the new way of analyzing ADB's projects from the conventional economic analysis. More specifically, a Poverty Impact Ratio (PIR) is computed as a decision criterion to gauge the acceptability of a project, based on the share of the poor in the total ENPV (Economic Net Present Value) of consumers, government/economy and labor. Thus a project is chosen if it is not only economically acceptable (based on EIRR) and cost-effective but also if PIR is greater than the given income share of poor in GDP, and if the share of poor in total beneficiaries is above their share in total population. Fujimura said that there are still some technical problems, especially data problems, in the estimation of project benefit incidence and in treatment of government net gain. This is where work is still in progress.

75. **Mr. Stephen Curry, Senior Project Economist, ADB**, spoke on **“Project Income Distribution and Poverty Impact Analysis: Illustration of the Application in Real Life ADB Projects”**. He showed specific examples on how the Poverty Impact Ratio (PIR) was determined in two road sector projects, namely, the Hebei Roads Development Project in PRC and the Road Rehabilitation Project in Tajikistan. In these projects, he showed two sets of analysis that have been employed. One is **economic and financial analysis**, and the second is **distribution analysis**. The first set is the conventional project analysis that employs the determination of economic rate of return, financial internal rate of return and real return to equity. But he discussed more lengthily the second analysis that investigates to whom the project benefits go. The procedure takes stock of the types of benefit of the project, who benefits, and quantifies these benefits using the PIR as an indicator based on relevant estimators.

76. In the **open discussion**, some of the participants sought clarification concerning the types of infrastructure that impact on poverty reduction. They argued that while rural roads impact significantly on poverty, without other infrastructure projects such as water and sanitation that enhance rural development, transport projects would not make much difference on poverty reduction. Rayner agreed very much and clarified that transport infrastructure is not the key but plays an intermediary role since it basically facilitates access to services which is essential to poverty reduction. In reacting to

the question of the linkage between project goals and poverty consideration, Curry emphasized the importance of distribution analysis. He also pointed out that it is worthwhile because it raises questions regarding where benefits go rather than just knowing the overall benefits of a project and therefore extends the project purpose to a much broader perspective. Adhikari provided references to previous work, which underpin distribution impact analysis and income flow analysis to arrive at a poverty impact ratio being developed at the ADB. In this regard, he cited the works of Terry Powers and Elio Londero of the Inter-American Development Bank, Lyn Squire of the World Bank, and Professor Hansen, in this area.

77. To begin his own presentation on the topic, “**National Governance and Poverty Reduction,**” Mr. Clay Wescott, Senior Public Administration Specialist, ADB, showed some examples of good governance practices in Asia particularly in India, Philippines, Bangladesh and PRC. He emphasized that these illustrate that many good governance practices are prevalent in many countries. However, most of these are found at sub-national levels and therefore it is desirable for these good practices to be seen more at the national scene. Wescott then proceeded with his presentation, which essentially revolved around the basic concepts of governance and how they relate to poverty issues, as well as ADB’s policies and operations regarding governance.

78. Wescott used the 1995 ADB Board Paper on Governance to define governance, referring to it as “the manner in which power is exercised in the management of a country’s social and economic resources for development”. Governance is important to ADB because according to the same document, “the success of the ADB’s project investments depends crucially on the efficacy of the institutional framework in DMCs and the consequent capability for purposive implementation”. He explained that although ADB is not involved in political matters, it has to concern itself with systems of good governance so that projects can become successful and money well spent. He explained that good governance helps the poor in three ways: **facilitating markets and economic growth, promoting participation and empowerment, and enabling delivery of high quality services.** He then showed a summarized version of the framework shown by Pollard in his previous presentation and noted that good governance is one of the basic foundations for poverty reduction. To further explain the relationship, Wescott pointed to some correlations of good governance with poverty indicators in terms of household and per capita income as well as health-related indicators. He pointed, however, to some caveats in using democracy as a measure of good governance. He explained that democracy does not always help the poor, especially when the middle and upper classes use well-financed lobbying to secure resources, when reaching consensus slows decision-making, and when the poor have difficulty exercising their political rights due to poor information, geographic dispersion, weak communication, lack of infrastructure and fear of reprisals. He also argued that populist policies might not be best for long-term growth and poverty reduction. Finally, Wescott explained lessons that ADB has learned in its promotion of good governance. Among these include:

The need to focus on DMCs committed to reform,

- That commitment is more than speeches and signed agreements but measured in results,
- That when there is commitment only at the sub-national level, support may be justified at that level
- That ADB governance work should be limited to awareness raising in countries with weak reform commitment, hoping to facilitate a broad-based coalition of support for reform at a later stage.

79. In the **open discussion**, Pollard mentioned that this topic is very important because in the future, ADB will possibly implement performance-based lending as part of its lending operations. In response to several questions on the topic, Wescott explained that governance is not a rocket science where there are universal tools for analyzing the situation and solving them. For instance, corruption is a complicated issue and addressing it may vary. The mere transfer of experience of one country may not prove effective or feasible because of different cultural, political and economic systems. Even at ADB, corruption is addressed through mechanisms that establish **checks and balances in project approval.** All projects are approved by the Board, where all member countries are represented, and loan/grant funds for projects are posted on the web site for two months before they are approved. He said that not all multilateral institutions have this kind of system. ADB is also required to provide documentation if the government is questioned. He also announced that starting next year, countries that availed themselves of the ADF facility will undergo a rating process in their development projects where governance will be weighted 25 per cent in the total rating. The rating system will determine the country’s qualification to avail of loans in the future. Wescott also shared the difficult reality in governance issues for the ADB, especially with its policy on focusing on countries that are committed to reform, in that it is difficult to predict when a government will decide to commit to reforms. There are instances where it can be very fast, where the government is ready and ADB is not. Thus, there is a need for projects to be underway or prepared earlier even for countries which are not yet committed to reform so that when they become ready, it will not take too much time before loans/grants become available.

80. Dr. S.C. Babu, Senior Research Fellow, International Food Policy Research Institute (IFPRI), made a presentation on “**Poverty Monitoring In Asia: A Conceptual Framework, Issues and Challenges**”. The key message in the presentation was that a **monitoring system which is simple, user-driven, based on existing institutional structures, increases the capacity for analysis and interpretation, and has the commitment of relevant decision-makers for using the information in planning and policy design is most likely to be sustainable and successful.** Babu stressed this conclusion of the paper because poverty monitoring has been implemented in several Asian countries for the past two decades with limited success. As the World Bank has reported, the failure is traced to inadequate understanding of poverty monitoring principles, inappropriately-designed monitoring systems, multiple objectives, operational inefficiencies in

implementing systems, and limited capacity in converting information into specific policies and intervention programs.

81. Babu then reviewed the basic concepts, issues and challenges to improve poverty monitoring in Asia. He stressed that there are various types of poverty monitoring systems and they serve different users and exist in accordance to the purpose for which they were designed. Among the current types of monitoring systems include those for **program monitoring and evaluation, development planning and policy design, timely (early) warning and intervention, problem identification and advocacy and monitoring effects of structural adjustment policies**. These systems all adopt basic methodology and processes in monitoring, but Babu emphasized that the most important factor in designing the system is a good understanding of poverty and the appropriate translation of this understanding through the use of “good” poverty indicators. According to him, good **poverty indicators have seven characteristics**. They:

- 1** Directly measure welfare changes
- 2** Meet the information needs of monitoring objectives
- 3** Allow for geographic differences, i.e. vary across regions and groups over time
- 4** Capture changes due to policies and programs
- 5** Isolate non-program effects
- 6** Are cost-effective to collect
- 7** Are easy and can be frequently collected

He stressed that more crucial than data collection is being able to **convert data to policy feedback for policy decisions**. Finally, Babu explained that there are a lot of issues and challenges which remain in the area of poverty monitoring. The crucial ones include the appropriate design of systems that match available data with the needs of policymakers, the establishment or strengthening of infrastructure for monitoring, the various operational issues that include financing, data collection and information system, staff training and development as well as the need for more research that will improve existing poverty monitoring systems and approaches.

82. In the **open discussion**, Babu noted that countries differ in terms of data availability and institutional capacity to generate data, so that the question of how decentralized or disaggregated poverty-monitoring data should be depends on the country’s situation in this regard. Nonetheless, he said there is a need for capacity building not only in terms of data gathering but also in data analysis, as the skills needed in these activities are quite unique. Pollard shared some lessons in monitoring based on experiences in his work in Malawi about 20 years ago. The first issue is defining what is being monitored. The lesson they learned is that unless there is an agreement on a framework for poverty, it is difficult to identify which measures or indicators are important. The second issue is the limited demand for monitoring. The lesson they learned is that information derived from the monitoring system has to be relevant to decision-makers in order to be useful and therefore increase the effective demand for monitoring in the future. Also the selection of key indicators does not happen overnight but has to be built over time. Adhikari mentioned other issues regarding poverty monitoring. First is that a feedback mecha-

nism is important so that information on welfare improvement can be generated. In this regard, he mentioned that ADB monitors both the “process” and “outcome” of projects. Furthermore, ADB has given greater emphasis on the participatory approach in monitoring its various sectoral projects so that there is a gauge as to how projects impact on poverty. Also, he explained that there has to be regularity in monitoring of project impact on poverty. While some countries do it annually, it is acceptable to do it periodically, e.g., every two or three years.

Country-Specific Poverty Reduction Issues

Special Presentation on the Philippines

83. A special presentation was made on **Poverty Reduction in the Philippines** by **Mr. R. Calingo of the Philippine Business for Social Progress (PBSP)**. He briefed the participants on PBSP and how the business sector is contributing its share in poverty reduction activities. **Mr. Ramon Falcon of the National Economic and Development Authority (NEDA)** and **Mr. Arnold Obina, Commissioner for the Youth Sector of the National Anti-Poverty Commission (NAPC), Philippines**, gave a presentation on the government’s work in this regard.

84. Calingo explained that the PBSP is a private, national, and non-profit corporate-led foundation with about 50 corporations as initial members (now 164), which encourages business sector commitment to social development. He pointed out that there is a common perception in society that businesses are only concerned about profits and do not care about social problems. PBSP was established to correct this misimpression and also because business would have difficulty operating within an unfavorable environment. The PBSP is based on the Venezuelan model — DIVEDENDO, with some modifications in terms of how programs are carried out. PBSP believes that development work should not be doled out, and therefore provides a program that relates to **education, starting up businesses** as well as **human resources development, and capacity building**. PBSP receives its funding from the members who have pledged to set aside 20 per cent of one per cent of their net income before taxes to fund the foundation. From its founding in 1970 up to the present, it has spent 1.5 billion pesos for 4,200 projects that benefited 2.2 million poor and 2,500 partner institutions. From 1990 to 2000, loan assistance totaled 1.7 billion pesos, benefiting 7,059 enterprises and 27 intermediary institutions and generating around 57,000 jobs. Current programs are in the area of **environmental protection, technology management, developing enterprises and providing livelihood, strengthening local governance and development management**.

85. Falcon explained that the National Anti-Poverty Action Agenda (NAAA) has recently formulated a strategic framework and program of action for poverty reduction in the Philippines. Falcon emphasized that the NAAA took a long time to formulate the framework because most extensive consultations were undertaken to elicit the greatest participation from

various sectors of society as well as different levels of government. The Action Agenda, which was explained by Orbina, includes, among other things, a **development vision for the poor**, a **poverty framework** that builds upon the political, economic, ecological and social dimensions of poverty, **institutional arrangements**, **funding** and **monitoring and evaluation**. The NAAA, according to Orbina, believes that the key to success is in the unity of the government and other stakeholders in the fight against poverty.

86. In the **open discussion**, there were several inquiries regarding the work of PBSP and NGOs in the Philippines in general. A question was raised regarding the difference between NGOs and the government in approaching problems of poverty and in the programs they undertake. Calingao said that while the government looks at poverty on a macro level, NGOs look at it on a micro level. He explained that NGOs have been given a greater role in development activities starting in the 1980s during the Aquino regime, when a mechanism was put in place for NGOs to collaborate with the government in terms of work and in sharing views on how to address poverty and development in general. Calingao shared the view that **NGOs, though they have proved effective, cannot replace the government** since the programs that the latter implements apply to all regions. However, NGOs by their nature look at or address micro level issues and tailor fit their programs to the needs of the local communities they work with. They are also good at research and the development of social technologies, such as, for instance, the adoption of foreign technologies to the Philippine context (e.g. the Grameen Bank Approach). Regarding the query on how PBSP deals with its members regarding their contribution, Calingao explained that there is an automatic billing system, but that contributions are given on a voluntary basis. For big companies such as multinational companies, the application of one per cent of total income is not normally followed but these companies provide their contributions in some other way.

Group Presentations by Participants

87. The participants worked in small groups to give presentations on their country-specific poverty reduction issues, and prepared group reports on the **sources and causes of absolute poverty, changes in the poverty situation, major constraints on poverty reduction** and **key policy messages**. The key points of the presentation are summarized below.

Group A: PRC and Viet Nam

88. PRC delegates reported that the estimated number of poor people in PRC is 340 million, who are mainly concentrated in the middle and western provinces, mountainous provinces and where there are large ethnic concentrations. There are two major causes of poverty in these areas: the **high degree of vulnerability to natural disasters** and the **failure of past development efforts for poverty reduction**, mainly due to lack of funds and inefficient fund management. Currently, PRC is preparing a National Poverty Re-

duction Strategy, which will focus on resolving the food and clothing problems of the poor and at the same time increasing their income and promoting the development of poor regions through infrastructure development. Family planning will also be strengthened to bring down excessive population growth in the poor areas. The government has decided to place emphasis on addressing poverty in the western part of PRC, where most of the poor live, in order to **narrow the existing regional development gap**. It has also stressed the need to enhance exchanges and cooperation with international organizations and has noted the efforts of ADB in proactively pursuing projects in PRC in view of its overarching strategy of poverty reduction through the provision of soft loans.

89. In Viet Nam, the cause of poverty under the old centralized system was the **chronic economic crisis caused by the distribution policy**, which did not provide people with incentives to work hard. The new market-oriented system and the reforms that have been introduced in the country have invariably helped growth and contributed to a reduction of poverty from 30 per cent in 1993 to 11 per cent in 2000, based on the Viet Nam's Food Poverty line. A fragile economic system coupled with fiscal and institutional problems continue to pose constraints to poverty reduction in the country. Some major policies to address these issues include efforts to **develop human resources**, develop infrastructure especially in the three poorest regions of the country (North Mountainous, Central Highlands and North Central), **improve economic management to promote a better environment for private, and foreign investors**, and **promote agricultural development as well as better governance** that allows for the participation of all levels of governments and stakeholders.

Group B: Bangladesh, India, Nepal, Pakistan and Sri Lanka

90. The pattern of economic growth has had varied effects on poverty reduction in different countries of the group. For instance, in India, though poverty was modestly reduced through economic growth, the absolute number of poor had remained constant. In Pakistan, in spite of the steady growth of the economy, there has not been any significant reduction in poverty levels. In the case of Nepal, both growth and poverty are at low levels. In Sri Lanka, poverty reduction is at a low level in spite of moderate economic growth. In Bangladesh, both economic growth and poverty reduction remain moderate. The group concluded that one of the causes of the modest achievement in poverty reduction even in high or modest growth situations is the **weak link between poverty alleviation strategies and the economic growth process**. Thus, pro-poor sustainable economic growth must be pursued along with efforts in social development and good governance. The group has identified a long list of key causes and constraints of poverty, which can be summarized into four: **economic, institutional, resource mobilization and interventions**. The group reported that these factors are true in each country but the level of importance differs from coun-

try to country. The group also identified a number of recommendations to address poverty in their respective countries. These are:

- Acceleration of pro-poor, participatory and equitable economic growth
- Physical and social infrastructure investments
- Short-term and medium-term programs that addresses unemployment and asset creation rather than food for work schemes
- Agricultural growth
- Good governance and capacity building and population programs
- More effective social safety nets, and convergence of services
- Microfinance
- Empowerment of women; involvement of NGOs
- Regional development and the assistance of multilateral agencies

The group suggested that ADB should consider creating a separate window of financing for poverty programs of the countries of the region.

Group C: Indonesia, Philippines, Thailand

91. Poverty in the three countries is largely rural rather than urban. In recent years it has been largely blamed on the **financial crisis** that affected these economies, the occurrence of the **El Niño and La Niña phenomena**, the **shortfalls in production** from the industrial sectors and **government revenues**, as well as **civil conflicts**. Government policies that caused an unbalanced growth between urban and rural areas as well as institutional failings have also caused poverty to rise in these countries. The key constraints to poverty reduction identified by the group included **limited government resources, world economy and globalization** as well as the **quality of human resources**. During the discussion, corruption was also identified as one of the biggest constraints alongside these factors. The **strong international ties** among the countries represented in the group has also been identified as a strength that can be used to pursue multilateral cooperation in the areas of research, trade and technology transfer that will benefit pursuits in poverty reduction. Polard also mentioned that the emphasis on poverty reduction strategies among the countries represented in the group is not so much on seeking more multilateral aid for government anti-poverty programs but more in terms of better governance, better labor markets and better capital markets which can help in promoting investments that will in turn help to generate more jobs for more people, especially the poor. Striving for better governance and addressing corruption issues will significantly impact on poverty reduction in these countries.

Group D: Mongolia, Kyrgyz Republic and Uzbekistan

92. The countries in this group are all in the stage of transition from centrally-planned to market-oriented economies, and during this process, poverty has accelerated. This has

been aggravated largely by the recent Russian and Asian financial crises that affected these economies. In the case of Mongolia, poverty has remained stable since 1995 but the severity of poverty increased. In Kyrgyz Republic, poverty incidence grew to 55.3 in 1999 due to the Russian financial crisis. In Uzbekistan, poverty incidence decreased to 16.8 as a result of the improved employment situation and improvement in the social assistance system. Poverty in all these countries has been caused by **low economic growth, limited government resources, ineffective and inefficient social service provisions, limited physical infrastructure** to respond to extreme climatic conditions (long and cold winters), **unattractive investment climates** due to geographic location and infrastructure, **inadequate market-oriented skills** and **lack of comparative advantages** in production. Poor governance was identified in Mongolia and Kyrgyz Republic, while poor social infrastructure in the rural areas was identified for Uzbekistan as a constraint. Currently all countries are developing long-term poverty reduction strategies with the help of international agencies along the following directions: accelerate economic growth, deepen institutional reforms, and improve social policy and targeted assistance for the poor.

Closing Session

93. Adhikari summed up the key conclusions of the seminar as follows:

- Countries in the region differ in levels of growth and poverty and thus it is important to begin with a **good understanding of the sources and causes of poverty** to help in the formulation of strategy and design of poverty reduction projects. Deprivation of assets and opportunities which characterize poverty may stem from either the initial conditions, such as a poverty or lack of resources, geographical disadvantages or may be due to internal shocks (impacts of policy reforms, internal conflicts, natural disasters) or external factors (contagion effects of crisis).
- The possible measures to combat poverty should aim at **providing employment** (increase waged income), **opportunities to create assets** through finance, property rights and liberal policies (to enhance asset income), basic needs (water, sanitation, primary health and education), and **people's participation and ownership** (empowerment). The model intervention or policy mix will depend upon the specific characteristics of the country.
- Generally, in order to reduce poverty, additional national income must be generated. To reduce poverty effectively and quickly, **growth must be fast and inclusive**. This requires improved efficiency in resource allocation and use.
- Higher or faster economic growth is a necessary condition for poverty reduction as it can contribute to employment creation and to public investments in health and education, which benefit the poor. The **creation of more employment** and the **provision of basic utilities, health and education** are the main mechanisms to benefit the poor.

- Growth is a necessary but not a sufficient condition for poverty reduction, particularly where institutions do not work, governance is weak and income disparities and initial conditions are inherent problems.
 - There was a lot of consensus in the seminar on the factors most conducive to growth. Internally, these include **liberal business and regulatory environments** and **law enforcement**. Externally, they include **openness to trade and investment**, which can generate economic efficiency and additional employment. However, their effectiveness will depend on the type and quality of trade and investment liberalization and the global trading environment. In the case of trade, there are problems for both developed (market access) and developing (factor content in exports) countries. However, the poor will be most helped by increased exports of labor-intensive products (e.g., agriculture-based and textiles). Thus, there is a need to be careful with the dynamics of comparative advantage and in prioritizing industries for promotion.
 - **Growth in agricultural output** may reduce poverty effectively. However, agriculture is traditionally highly subsidized, and sometimes no matter how much resource one puts in, improvements are not that significant. The question then is if agriculture is important in poverty reduction, and how can one enhance productivity in a more cost effective way? There is a need to find solutions in this area.
 - There are potential positive contributions to growth from **improving physical and social infrastructure**. Similarly, **law enforcement** and **national governance** play a crucial role, and the way they are practiced can make or break the country's economic growth.
 - The growth experienced by countries differs in effects on poverty reduction and addressing inequality. In India and PRC, high growth was experienced but poverty incidence remained high. Population levels may to a certain extent hinder poverty reduction in India but not so much in PRC, although population growth is relatively higher in undeveloped rural areas in PRC. Among the countries in South-east Asia, high growth resulted in high reduction in poverty but inequality remained high (i.e., the benefits of growth were not well shared). There were also differences in growth rates in terms of geographical location between and within countries and also over time in these countries.
 - Good national governance is important and this takes place under the condition of **firm political commitment, efficient national economy management, transparency and accountability** in policy and implementation, **people's participation and ownership, law enforcement** and **local development cooperation and networking**.
 - Possible key mechanisms for poverty reduction include **social safety nets** (public and private, short and long-term), **microfinance, participatory integrated rural/area development** (but with new elements), **social capital, physical infrastructure** and above all, a **liberal policy environment**.
 - Much depends on how public resources are allocated. Thus, there is a need to make a critical review of **government budgetary process** and possible ways to make the budget system pro-poor. Also, an analytical framework must be formulated to set budgetary priorities including **economic justifications, evaluation of options, and assessment of efficiency and equity** of public spending. There is also a need to improve resource management in the public sector and to give importance to consultation and participation in the budgetary process.
 - In terms of designing projects for poverty reduction, **incorporating poverty issues in project preparation** (EIRR, distribution analysis, poverty impact ratio) and **close monitoring of the indicators** in terms of "process" as well as "outcome" of projects to determine if projects are implemented as designed or as expected, are all important to ensure that the goal of poverty reduction is achieved.
94. At the closing, Pollard declared that "poverty reduction is possible". Sandilya on behalf of the organizers thanked all the sponsors, collaborators, participants and their respective governments.

Prepared by: S. B. Chua, R. B. Adhikari and Ruben Mercado.

ADVANCE NOTICE: POVERTY PROGRAMS IN 2001

There will be three major capacity building programs on poverty reduction conducted by the ADB Institute in 2001 — social safety net (March 2001); urban poverty (June 2001) and rural poverty (October 2001). For further information, please contact Dr. D. Bucher (dbucher@adbi.org) or Dr. R. B. Adhikari (radhikari@adbi.org) and always click on www.adbi.org.

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ADBI Publishing 02/01