

ADB

Fighting Poverty in Asia and the Pacific: The Poverty Reduction Strategy

Asian Development Bank

The mission

Poverty reduction:the overarching objective

Poverty is an unacceptable human condition. It is not immutable; public policy and action can, and must, eliminate poverty. This is what development is all about.

Close to 900 million of the world's poor (i.e., those who survive on less than \$1 a day) live in the Asian and Pacific region (Appendix 1). Nearly one in three Asians is poor. Although the proportion of people below the poverty line had been declining, the trends in poverty reduction have recently worsened. Population growth is also adding to the absolute number of poor. South Asia, one of the poorest subregions in the world, now has more than half a billion poor people, of whom 450 million are in India. The People's Republic of China (PRC) has 225 million poor, and about 55 million more are in Southeast Asia (where in the wake of the Asian crisis, over 10 million have joined the ranks of the poor). Many people in the Central Asian republics have slipped into poverty with the economic disruptions of transition. The small island countries of the Pacific, despite their relatively higher per capita income, remain vulnerable because they are remote, prone to natural disasters, and have limited ability to deal with external economic shocks.

Until recently, trends in poverty reduction in the region had been positive, especially in East and Southeast Asia. However, since the Asian financial crisis in 1997, declines in gross domestic product of the economies worst affected, and carryover effects in other countries, have stalled progress. Absolute poverty has increased in the crisis-affected countries,

and the poor (and particularly their children) have suffered the most. More ominously, the social consequences of the crisis are likely to be felt long after these economies return to solid growth.

As an institution whose purpose is the economic development of the region, the Asian Development Bank (ADB) has always been concerned with poverty reduction. Beginning with a focus on economic growth, ADB has progressively expanded its approach to encompass a wide range of social and environmental concerns.¹ The experience gained in this process by ADB and its members has given rise to confidence unthinkable even a decade ago: that absolute poverty can be eradicated. This realization, and the knowledge that development continues to bypass so many people in the region, calls for an even sharper focus of our efforts. These considerations drive ADB to make elimination of poverty its principal *raison d'être*.

ADB supports the International Development Targets established at a series of world summit meetings in the 1990s (e.g., reducing by half the proportion of people in extreme poverty). In November 1997, Asian and Pacific ministers agreed to accelerate implementation of the Agenda for Action on Social Development in the regional members of the Economic and Social Commission for Asia and the Pacific. The agenda's targets (e.g., eradicating absolute poverty in the region by 2010) set clear directions for governments and the international community (Appendix 1). However, these targets need review in the light of the Asian crisis. ADB will work with members to develop credible regional targets for poverty reduction.

Because the vision is an Asian and Pacific region free of poverty, ADB has a clear and single-minded mission. Reduction of poverty is no longer just one of five objectives, it is ADB's overarching goal. To this end, the other strategic objectives (i.e., economic growth, human development, sound environmental management, and improving the status of women) will be pursued in ways that contribute most effectively to poverty reduction. The fundamental shift will affect every aspect and level of ADB's operations. This strategy paper sets out the ways in which these changes will be implemented.

1 As outlined in ADB's first *Medium-Term Strategic Framework* (1992-1995), the five strategic development objectives were promoting economic growth, supporting human development, reducing poverty, improving the status of women, and managing natural resources and the environment soundly.

Building on success

In attacking poverty, ADB builds on the region's success over the last three decades. While this success has varied between and within individual countries, the region overall has dramatically changed. In the early 1970s, more than half the population of the region was poor, average life expectancy was 48 years, and only 40 percent of the adult population was literate. Today, the percentage of poor people has decreased to nearly one third of the population, life expectancy has increased to 65 years, and 70 percent of the adults are literate. Despite an increase in total population from 1.8 billion to 3 billion, the number of poor people has fallen slightly from over 1 billion to under 900 million.

ADB has contributed to these achievements. It has financed investments and policy reforms aimed at promoting growth and employment and, especially in the 1990s, focused on human development, gender equity, and environmental protection. In addition, ADB has supported projects that directly target the poor (e.g., for basic education, nutrition, health, and family planning services) or establish mechanisms to protect vulnerable groups (including the disabled). It has promoted research on poverty issues, led sector-focused policy dialogue on the causes and impact of poverty, and strengthened institutional capacity in government agencies.

Over the years, ADB has learned much about how to address the various dimensions of poverty. For example, in the health sector, instead of merely funding equipment and civil works, ADB now invests more in training and management systems.² And increasingly, emphasis is given to consulting with beneficiaries. However, much more needs to be done to involve stakeholders in project design and implementation. When trying to improve the status of women, ADB has found its interventions to be insufficiently effective because project design assumed institutional capacity that did not, in fact, exist.³ The paucity of female staff in project entities was often overlooked; likewise, the difficulty of recruiting or retaining women staff in rural areas in the

2 This was accompanied by a dramatic increase since 1991 in the share of health sector lending devoted to primary health care and population activities (*Policy for the Health Sector*, February 1999).

3 *Policy on Gender and Development*, May 1998.

absence of women-friendly facilities (e.g., housing, travel, security). Now, projects pertaining to women are designed with these problems in mind. In microfinance, which is a powerful means of poverty reduction, ADB's earlier reliance on subsidized credit has given way to the realization that the poor were not always the actual beneficiaries. The emphasis now is on working with nongovernment organizations (NGOs) and private sector institutions to improve outreach and delivery of microfinance services.

In helping to reduce poverty in the region, ADB draws on strengths that equip it uniquely for the task. These include the exclusive focus on Asia and the Pacific; regional location; and majority shareholding of regional members (and, hence, greater ownership by them of ADB's strategic orientation). At the same time, the participation of nonregional members ensures that global perspectives are brought to bear on regional development issues. ADB undertakes grant-financed technical assistance, public sector lending, and private sector operations under a single roof, and can take advantage of synergies that result. ADB's well-defined policy on governance issues and its success in promoting subregional cooperation are of growing relevance in the fight against poverty. ADB's response to the Asian crisis, in particular measures to mitigate the impacts on the poor, also demonstrated the institution's ability to effectively address questions of social protection.

While the primary responsibility for poverty reduction rests with countries themselves, as the region's premier development institution, ADB can be a powerful ally of borrowing members in their war against poverty. ADB's intellectual and financial contributions can play a crucial catalytic role in reinforcing national efforts to reduce poverty. ADB therefore rededicates itself to the eradication of poverty in the region. The Poverty Reduction Strategy embodies ADB's commitment to this massive task.

The challenge of poverty reduction

The nature of poverty

In the past, ADB relied heavily on income levels as the basic measure of poverty. However, there is now universal agreement that dimensions of poverty far transcend this traditional definition. In ADB's view, *poverty is a deprivation of essential assets and opportunities to which every human is entitled. Everyone should have access to basic education and primary health services. Poor households have the right to sustain themselves by their labor and be reasonably rewarded, as well as having some protection from external shocks. Beyond income and basic services, individuals and societies are also poor—and tend to remain so—if they are not empowered to participate in making the decisions that shape their lives.* Poverty is thus better measured in terms of basic education; health care; nutrition; water and sanitation; as well as income, employment, and wages. Such measures must also serve as a proxy for other important intangibles such as feelings of powerlessness and lack of freedom to participate.

In practice, the most broadly used standard for measuring poverty will continue to be the adequate consumption of food and other essentials. This yardstick (the poverty line) varies from country to country, depending on income and cultural values. While national measurements are essential for measuring the impact of efforts to reduce

poverty, ADB's priority is on absolute poverty, and international comparisons will also be necessary.⁴

A framework for poverty reduction⁵

The poor are not a homogenous group. Just as the nature of poverty is diverse, so, too, are its causes and victims. The poor may not have acquired essential assets because they live in a remote or resource-poor area; or because they are vulnerable on account of age, health, living environment, or occupation. They may be denied access to assets because they belong to an ethnic minority or a community considered socially inferior, or simply because they are female or disabled. At a broader level, poverty may stem from situations where gross inequality of assets persists because of vested interests and entrenched power structures. Finally, essential assets may not be available to the poor because of the lack of political will, inadequate governance, and inappropriate public policies and programs.

The primary responsibility for finding solutions to poverty lies with countries themselves, but success will depend on the united efforts of government and civil society, and on strong and sustained support from the international community. For all stakeholders, the strategies chosen to reduce poverty must be comprehensive enough to address all of its many causes. For this reason, ADB sees the twin pillars of propoor,⁶ sustainable economic growth and social development as the key elements in any framework for reducing poverty. Successful achievement of either element requires sound macroeconomic management and good governance, the third pillar. Together, the three pillars result in socially inclusive development.

However, for socially inclusive development to be achieved, better understanding is needed of the environmental implications of

4 Despite inherent weaknesses, measures such as the "dollar-a-day" poverty line and the Human Development Index and Human Poverty Index of the United Nations Development Programme (UNDP) will continue to be used (Appendix 1). However, the need to refine these measures in the context of the Asian and Pacific region will be examined.

5 This framework takes into account the conclusions of *Reducing Poverty: Findings and Implications—A Report of Consultations in Selected Developing Member Countries of the Asian Development Bank* (ADB, 1999, Manila).

6 Growth is pro-poor when it is labor absorbing, and accompanied by policies and programs that mitigate inequalities and facilitate income and employment generation for the poor, particularly women and other traditionally excluded groups.

policies to reduce poverty, and of the impacts on the poor of environmental policies. The poverty-environment nexus has, essentially, two broad components. On one hand, are the "brown issues" involving polluting industries that locate in areas populated by the poor on account of lax regulation and enforcement. Also included in this category is the air and water pollution that occurs in megacities, where the poor live in the worst affected localities. On the other hand, are the "green issues" of deforestation, rapid depletion of natural resources, and land degradation. Both sets of issues have a direct bearing on the deepening of poverty.

Within this general framework, poverty-reducing interventions can be short term, such as those that sustain the supply of basic services to the poor during emergencies (as in the recent Asian crisis); medium term, such as those that help address structural issues affecting delivery of basic services and other targeted poverty interventions; or long term, such as those that stimulate pro-poor growth and encourage expansion of the private sector.

ADB is mainly concerned with interventions having medium- or long-term impact. ADB's strength lies in financing relatively large investments, as well as in conducting policy dialogue with governments in support of policy reform. While physical investments contribute directly to poverty reduction, the policy and institutional environment is also of great importance for sustainable poverty reduction. ADB will therefore adopt a systematic approach to poverty reduction by promoting policy reforms, assisting the development of physical and institutional capacity, and designing projects/programs to better target poverty.

Reducing poverty and inequality is a humanitarian priority; it also promotes economic growth. ADB's borrowers require sound economic justification for the loans they take. Experience clearly demonstrates, though, that investments in areas such as education, microfinance, and health not only have an impact on poverty but also stimulate economic growth. Developing human and social capital increases political stability, raises productivity, and enhances international competitiveness, leading to faster growth.

Key elements of the framework

Propoor, sustainable economic growth

East Asia, where most countries reduced their incidence of poverty by half or more in just two decades, provides ample proof of the importance of economic growth for poverty reduction. Despite the Asian crisis, these countries have shown how robust growth can reduce poverty. Growth increased the demand for labor, which in turn expanded economic opportunities and raised worker productivity and wages. It also expanded public revenues that could be used for basic education, health care, and infrastructure. Outward-oriented policies in East Asia led to labor-absorbing growth, and the resulting expansion in employment opportunities brought large numbers of women into the labor force, with important consequences for poverty reduction and the status of women. The rise in female participation in school and the workforce slowed population growth through lower fertility rates. The increase in national income was used to expand investment in human capital and improve access of the poor to basic services. Further increases in productivity and declines in population growth followed.

The lesson is clear: growth can reduce poverty by generating employment and incomes, and labor intensive growth can reduce it even faster. Thus, policies that encourage labor intensive growth are powerful propoor measures. Such policies include, in particular, the removal of market-distorting interventions, such as overvalued exchange rates, import and/or export restrictions, credit subsidies, and reliance on state-owned enterprises. Other policies that fall in this category are development of a conducive environment for the private sector, and programs (e.g., microfinance and "workfare"⁷) aimed at increasing employment and income generating opportunities for women and other groups that may be outside the formal labor force. Infrastructure development can also make a considerable contribution to growth through job creation and improvement of access to economic activities and basic social services. Similarly, opportunities for

7 Workfare programs seek to reduce poverty by providing low-wage work to those who need it. Such programs have often been used in times of crises, when large numbers of the able-bodied poor become unemployed.

self-employment by the poor must be promoted. Inflation and (as seen recently in the region) economic crises also have a severe impact on the poor. Consequently, sound macroeconomic management is essential for sustained reduction of poverty.

The private sector, the engine of growth, can also play a direct role in poverty reduction. It can participate in physical and social infrastructure, including provision of basic services that will benefit the poor (thus freeing resources for the public sector). For the private sector to contribute more effectively to the delivery of such services, an enabling environment must be established and the financial sector developed. As the role of the private sector expands, that of the government should shift from owner and producer to facilitator and regulator. Indeed, an effective regulatory framework becomes critical to promote competition, enforce fair practices and standards, and ensure that essential services reach the poor. Governments must also monitor the social impacts of privatization to see that retrenchment, redeployment, or compensation programs are appropriate. ADB's Private Sector Development Strategy is thus timely and directly relevant to poverty reduction.

Market-driven growth processes typically benefit richer areas, where infrastructure and human capital are already reasonably well advanced. For poorer areas, public investment is generally necessary, especially in rural areas, which generally have excess labor. Similarly, specific interventions are needed to provide the rural poor or urban unemployed with access to key services and opportunities for self-employment.

Another important way to accelerate growth is regional and sub-regional cooperation, which offers larger markets, economies of scale, and division of labor. Such cooperation is especially useful for small countries with limited options. Cooperation may work best at the sub-regional level, as in the Greater Mekong Subregion, the "growth triangles"⁸ pioneered by ADB, and in the Central Asian republics. It is also useful in other ways, such as in the fight against disease (e.g., tuberculosis, malaria, and HIV/AIDS), and in the sharing of ideas.

8 Such as the Brunei Darussalam-Indonesia-Malaysia-Philippines-East Asian Growth Area and the Indonesia-Malaysia-Thailand Growth Triangle.

Environmental considerations, including natural resource management, are key elements in sustainable economic growth. Growth will be short-lived if it does not conserve the natural environment and resources. Although much of the past damage has been caused by powerful vested interests, the pressures of poverty and population compound the threat through deforestation, overgrazing, and overfishing. The rural poor are often forced to live on fragile lands and waters that require sensitive resource management in the face of increasing degradation. The urban poor are exposed to disease and illness resulting from overcrowding and polluted living conditions. Poverty reduction strategies need to be accompanied by policies and actions that enhance the quality and productivity of the environment and natural resources.

Social development

Economic growth can effectively reduce poverty only when accompanied by a comprehensive program for social development. Just as some targeting of economic development is necessary to reach bypassed areas, so social development must be targeted. Therefore, every country needs to have a comprehensive national poverty reduction strategy that provides for (i) adequate budgetary allocations for human capital, (ii) targeting of basic social services to the poor, (iii) removal of gender discrimination, (iv) an effective population policy, and (v) social protection. Beyond developing human capital, the aim must be to strengthen social capital, especially for people subjected to some form of exclusion. Accordingly, targeted programs will be required in five areas.

Human Capital Development. Human capital is the primary asset of the poor, and its development is of fundamental importance in the war against poverty. Every person must have access to basic education, primary health care, and other essential services. Without such access, the poor and their children will have little opportunity to improve their economic status or even to participate fully in society. It is also necessary to ensure that the relevance, quality, and quantity of education provided is designed to effectively increase participation, both in the workforce and in society at large.

9 *Population Policy Paper: Framework for Bank Assistance to the Population Sector*, July 1994.

Population Policy. The correlation between family size and self-perpetuating poverty is generally strong, especially in rural areas.⁹ Most countries see the need to reduce population growth to a rate where all children can be assured adequate investment in their future. To do this, a major effort is needed to enhance the quality of women's lives by giving highest priority to (i) ensuring universal education for girls, (ii) providing accessible reproductive health services, and (iii) increasing economic opportunities.

Social Capital Development. Social capital defines the fabric of society and strongly influences the rate of economic progress and the manner in which its benefits are distributed. In practice, strengthening the social capital of the poor largely means increasing their opportunities for participation in the workings of society. For historical reasons, social cohesion is often weak and many communities suffer from systematic social exclusion. In such cases, strong, proactive policies are required to reverse feelings of social and psychological inferiority, foster a sense of empowerment, and create genuinely participatory institutions. The promotion of community-based groups to undertake microfinance, health, and natural resource management is an important first step in this direction. Social capital, and a more inclusive society, can also be promoted through antidiscrimination legislation, land reform, security of property and tenure rights, legal recognition of user groups, and accessible justice systems. For ethnic minorities, special education curricula and self-managed health and other services may be necessary.

Gender and Development. In many societies, women suffer disproportionately from the burden of poverty and are systematically excluded from access to essential assets. Improving the status of women thus addresses a priority area of poverty and provides important socioeconomic returns through reduced health and welfare costs and lower fertility and maternal and infant mortality rates. Giving women voice and promoting their full participation make an important contribution to the overall development of society. Poverty reduction programs involving microfinance (Appendix 2), water and sanitation, and environmental restoration consistently demonstrate the substantial benefits from ensuring the full participation of women (Box 1).

Box 1: Gender and Poverty

While nearly two thirds of the world's poor are in the Asian and Pacific region, two thirds of the region's poor are women. And poverty is particularly acute for women living in rural areas.

In poor families, the gender division of labor and responsibilities for household welfare mean that the burden of poverty falls most heavily on women. Given gender disparities in education, health care, economic participation, and incomes, women are the most vulnerable category.

The number of women living in poverty has increased disproportionately over the past decade, compared to the number of men. Male migration in search of work and consequent changes in household structures have placed additional burdens on women, especially those with several dependents. In the Asian and Pacific region, the proportion of households headed by females ranges from 20 to 40 percent.

The increasing feminization of poverty is now a well-recognized trend. It has intensified with the recent Asian crisis, where adjustment programs tend to exacerbate women's hardships, and in the economies in transition as a short-term consequence of political, economic, and social transformation.

The disproportionate numbers of women among the poor pose serious constraints to human and social development because their children are more likely to repeat cycles of poverty and disadvantage. Improving the political, legal, cultural, economic, and social status of women is thus pivotal to escaping the poverty trap.

Social Protection. Every society has people who are vulnerable because of age, illness, disability, shocks from natural disasters, economic crises, or civil conflict. Social protection comprises a family of programs designed to assist individuals, households, and communities to better manage risks and ensure economic security. Such programs include old age pensions; unemployment and disability insurance; and social safety nets to cushion the adverse impacts of disasters, economic crises, or civil strife. Also included are policies to improve labor mobility and the enforcement of labor standards.

Good governance

The quality of governance is critical to poverty reduction. Good governance facilitates participatory, pro-poor policies as well as sound macroeconomic management. It ensures the transparent use of public funds, encourages growth of the private sector, promotes effective delivery of public services, and helps to establish the rule of law. A

sound macroeconomic framework is needed to encourage efficient and productive domestic investment and to keep inflation low to protect real incomes of the poor. Likewise, it helps prevent interest and exchange rate distortions that artificially reduce the cost of capital and discourage the use of labor. Good public expenditure management is necessary for fiscal discipline, economic growth, and equity. The latter is achieved through an effective, progressive tax system and adequate allocations for basic education, primary health care, and other public services. Effective regulation and supervision of the financial sector is needed to protect depositors, enhance competition, increase efficiency, and expand availability of financial resources for all members of society. As the Asian crisis has shown, good governance is also essential to avoid, or reduce the severity of, economic crises in an era of increasing liberalization and globalization.

Since effective and efficient delivery of basic services by the public sector matters most to the poor, weak governance hurts them disproportionately. Public sector inefficiency, corruption, and waste leave insufficient resources to support the requisite level and quality of public services and targeted antipoverty programs. However, denial of basic services to the poor is not just a matter of lack of investment. Often, it is the result of (i) institutional structures that lack accountability, (ii) domination by local elites, (iii) widespread corruption, (iv) culturally determined inequality, and (v) lack of participation by the poor. Where such problems exist, systemic changes are needed to move from poor governance to government accountable to the poor. Such changes are difficult to bring about, since existing arrangements that exclude the poor reflect prevailing economic and power inequalities. Yet unless these issues of inequality are tackled, it will be difficult to raise living standards of the poor.

Action must proceed at two levels. Public administration and expenditure management at the national level must be strengthened to promote propoor growth and social development. At the same time, responsibility for provision of public services should be devolved to the lowest appropriate level of government. Unfortunately, institutional capacity tends to be weak in local governments and there is danger of capture by local factions. Devolution may therefore have to be pursued in a phased manner, preferably starting with priorities such as

basic education and primary health care. The long-term objective, however, should be to empower the poor and develop institutional arrangements that foster participation and accountability at the local level (Box 2).

In achieving this objective, as well as in poverty reduction efforts generally, a diversified range of stakeholders is involved. Apart from the government and the private sector, civil society institutions have an important role to play. Numerous vibrant and responsive NGOs—both national and international—are engaged in development work or championing the legal rights of the poor. ADB will actively seek cooperation with such NGOs to benefit from their experience and perspectives, and take advantage of their closeness to the poor and vulnerable.

Box 2: Linking Governance and Poverty Reduction

Indonesia's recent financial crisis caused a multitude of problems, especially for the poor. In responding to this emergency, ADB sought not only to help the Government mitigate hardships incurred by the poor, but also to tackle some long-standing issues of governance. The Local Government and Community Support Sector Development Program promotes important reforms in decentralization and local government. A primary objective is the creation of a genuinely participatory system, with levels of transparency and accountability notably absent in the past. Under new electoral laws, villages will elect councils to take responsibility for local development planning and execution, and village nominees will manage a district-level community development forum.

To maximize impact on poverty, the program focuses on 35 districts and 6,000 villages that have been worst hit by the crisis. Funds provided allow local community organizations to identify high priority, small-scale infrastructure projects that provide long-term community assets and create immediate employment opportunities for the poor. In developing and managing these subprojects, local communities gain a sense of empowerment and responsibility in decision making, which will be institutionalized under the new local government regulations. Recognizing that social transitions are complex and potentially threatening, facilitators will help villagers gain confidence in dealing with the new opportunities. The program also specifies minimum participation rates for women in facilitation, decision making, and employment.

The strategy

To ensure that all aspects of ADB operations are driven by poverty considerations, ADB must translate the framework described in the previous chapter into a comprehensive strategy. The following sections describe how the three pillars of this framework will underpin programs of policy reform, investment projects, and capacity building in individual countries. In keeping with its overarching goal, the Poverty Reduction Strategy will also be the driving force for ADB's Long-Term Strategic Framework.

Poverty analysis

Since poverty causes and characteristics differ from country to country, the starting point must be a comprehensive examination of the constraints and opportunities for poverty reduction in each country. An initial task in poverty analysis will be a review of the sector poverty targets agreed under the Strategy 21 (Appendix 1) and the Agenda for Action on Social Development, and the principal sector strategies being followed. This will require understanding the nature, intensity, and spread of poverty; the distributional effects of macroeconomic policies; the focus and efficiency of public expenditures; and the effectiveness of government programs and institutions. ADB will involve other stakeholders in the analysis and build on the extensive data already developed by the government and the donor community.

In addition to such analysis at the macro level, field studies will be undertaken to help disaggregate the poor into those in the mainstream and those excluded by geographic or social factors. For each of these

groups, the factors underlying their poverty will be identified, as will their varying needs, demands, and likely response patterns. Assessments of the quality of governance at the grassroots level will also be required. Here, participatory assessments and consultations with civil society leaders will be used to provide a picture of the quality and accessibility of basic services, poverty reduction programs, and the legal system.

Through this analytical process, ADB resources will be used to support the efforts of the government to develop policies and institutions that will more rapidly reduce poverty. In view of the growing importance of civil society and the private sector, their full involvement in this analysis is essential. ADB country teams with crosscutting expertise will ensure that an integrated view is taken. Senior ADB staff will be directly involved in the process and will be accountable for its quality.

ADB recognizes that a large body of work is ongoing in the region and that many borrowing countries have well-developed strategies for poverty reduction and monitoring. In some cases, the strategies have been developed with support from other external agencies.¹⁰ In most countries, civil society is also active and has a wealth of accumulated knowledge and understanding of poverty issues at the grassroots level. In its analysis, ADB will use this body of knowledge and proven approaches. ADB will also support strengthening of data collection and management, poverty monitoring, participatory research, and poverty analysis. With Pacific island members, ADB will take the lead in capacity building for poverty analysis. Insofar as its own store of knowledge is concerned, ADB is accelerating its program to build a poverty database on each of its borrowing countries. This exercise will identify the gaps in data currently available and steps will be taken to fill these, to the extent possible, in cooperation with countries concerned and other agencies.

Poverty reduction will also increasingly be a major focus of the work program of the ADB Institute. In particular, the Institute will provide the analytical basis for long-term strategies for economic and social development and poverty reduction in the region.

10 In many countries, the World Bank and UNDP have pioneered comprehensive living standards measurement surveys and other studies.

Country strategies

A high-level forum to be organized and led by the government—the key stakeholder—will be held to discuss the findings of the poverty analysis. NGOs and community-based organizations, the private sector, ADB, and other donors will also participate. The purpose of the forum will be to discuss the causes and effects of poverty, and the activities that will have the greatest impact on poverty. The outcome will be a common understanding of what is required to achieve poverty reduction targets.

ADB's country operational strategy will then be formulated on the basis of the priorities emerging from the poverty analysis and the high-level forum. The Strategy will provide the analysis and set out the areas of focus, including policy reforms and sectoral emphases. It will also take into account the comparative advantage of ADB and the programs of other agencies.¹¹

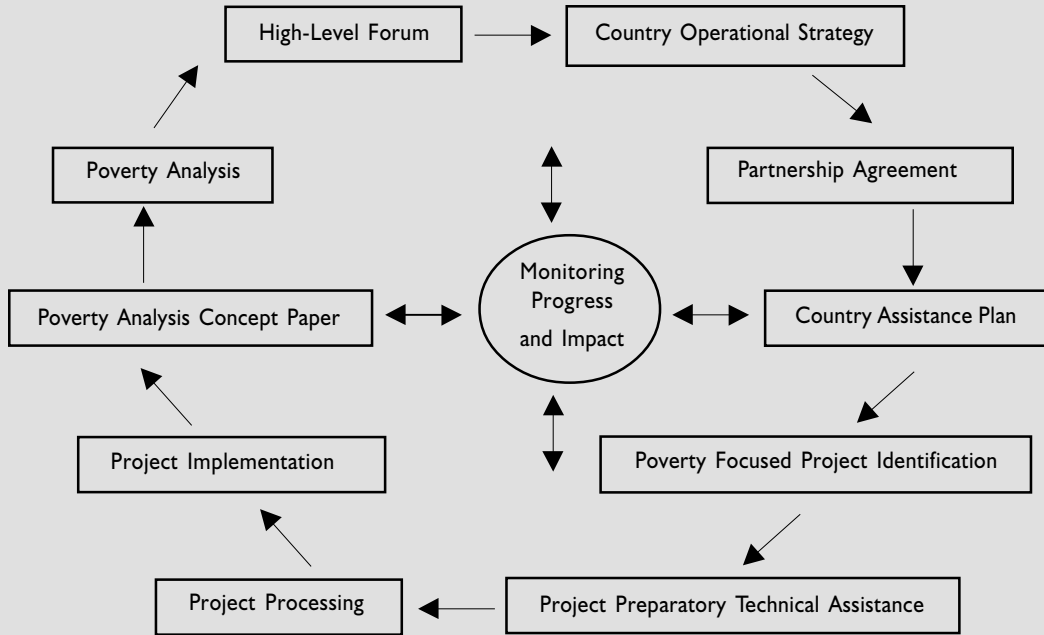
A partnership agreement between the government and ADB will be finalized to endorse the analysis and focus of the country operational strategy. Based on the inputs of government, civil society, and funding agencies, the agreement will formalize a sustainable partnership setting out a long-term vision and agreed targets for poverty reduction. The agreement will also incorporate mechanisms to review performance, highlighting key indicators and institutional milestones necessary to monitor progress.¹² The partnership agreement will be allied to an arrangement for linking performance to the allocation of ADB resources.

ADB's country assistance plans will translate the underlying thrusts of the partnership agreements into specific activities. The plans, prepared annually, identify, on a three-year rolling basis, the program of loans and assistance for each borrowing country. Figure 1 shows how ADB's operational cycle will work.

11 ADB's country operational strategies are prepared every four years. Beginning 2000, all new country strategies will be prepared in the manner indicated. For borrowing countries for which operational strategies have been completed recently, appropriate adjustments will be made to reflect ADB's overarching goal of poverty reduction. To this end, detailed poverty profiles will be prepared and will guide revisions to the country strategy as well as modifications to the country assistance plan.

12 The targets for poverty reduction will be broken down into the specific improvements that will be needed in the corresponding poverty indicators.

Figure I: The Operational Cycle



ADB's resident missions will play a key role in the monitoring of the indicators and milestones set out in the partnership agreement. The resident missions will also be responsible for regular interaction with stakeholders and civil society organizations on progress in meeting the agreed poverty reduction targets.

Project typology

All ADB loans and technical assistance will be expected to contribute to the reduction of poverty. Accordingly, all proposals will contain a specific assessment of their poverty impact, and the logical framework that accompanies each proposal will commence with poverty reduction as its ultimate objective. Projects or programs may (i) be designed to accelerate pro-poor growth, or (ii) focus on poverty directly.

Pro-poor growth interventions will seek to address impediments to broad-based economic growth. Policy-based lending will be used to correct policy and institutional weaknesses. In the case of infrastructure investments, ADB will give priority to projects that have greater impact on poverty. This may include locating projects in poor areas or incorporating specific components to ensure increased access for the poor to project facilities or services.

Poverty interventions will be designed to disproportionately benefit the poor. Many will be in the social sectors but some may also involve agriculture and infrastructure projects in rural areas, as well as environmental protection. These projects will address underlying weaknesses in policy and institutions while supporting the poor through (i) education, health, or other essential services; (ii) creation of income and employment opportunities in locations or among communities where poverty is disproportionately high; and/or (iii) mitigating risks for the poor or vulnerable. The defining characteristic of such projects is their concern for beneficiaries: the proportion of poor people among project beneficiaries will be significantly larger than their proportion in the overall population of the country, and in no case less than 20 percent. For purposes of classifying poverty interventions, national and rural poverty lines will be set out in the partnership agreement.

Core poverty interventions will be a subcategory of poverty interventions specifically designed to tackle extreme poverty. These will

be tightly focused to ensure that a majority of the beneficiaries are below the poverty line. Such projects will frequently be smaller, slower, more expensive in preparation and supervision, and involve greater risks than other projects; however, the additional effort is worthwhile, as solutions have to be found to the more intractable poverty problems.¹³

Program and lending targets

The partnership agreement with the borrowing country will bring together ADB's program of assistance. It will embody lending and nonlending instruments, including policy dialogue, technical assistance, and special studies. These constitute the program of activities ADB will undertake to help the country achieve its poverty reduction targets. Taken collectively, the partnership agreements with individual countries will provide the total picture of ADB's program goals and lending plans. Within this overall program, ADB's desired lending mix will include not less than 40 percent of all public sector lending for poverty interventions. This target of 40 percent is based on the assumption that an adequate level of concessionary funds will continue to be available to ADB.

Until now, ADB has committed itself to ensuring that at least 50 percent of its projects and 40 percent of lending volume are devoted to projects with goals other than pure economic growth. To monitor implementation of these targets, projects are classified according to primary and secondary goals of human development, poverty reduction, women in development, and environment. With poverty reduction now the overarching goal, the hierarchy of ADB's development objectives has changed and the classification scheme will be revised.

ADB's pursuit of poverty reduction is constrained at present because some countries do not have access to concessional funds (Box 3). Efforts may be required to ease this constraint and expand lending for poverty reduction in these countries.

13 Typical examples of intractable poverty are communities suffering simultaneously from physical and social exclusion, e.g., low caste or ethnic minorities living in remote, resource-poor regions.

Box 3: Poverty Reduction in the People's Republic of China and India

Almost 80 percent of the region's poor live in just two countries—the People's Republic of China (PRC) and India. Helping to reduce Asian poverty includes tackling poverty in these two countries. But relating the relatively small size of ADB assistance to these countries (less than one half of 1 percent of public investment in the case of the PRC) to the enormous scale of their poverty situations is not easy. A further problem is their reluctance to borrow nonconcessional funds for projects yielding low financial rates of return (even though social returns may be high).

Despite these challenges, ADB's portfolio in the PRC and India does not neglect social and poverty dimensions. In the PRC, the location of ADB-supported infrastructure projects is shifting increasingly from the coastal belt to poor counties in inland areas. As restructuring of state-owned enterprises proceeds in the PRC, urban poverty is expected to increase. An ADB-financed study will evaluate urban poverty in the country, help the Government determine appropriate responses, and suggest ways in which ADB could assist.

In India, ADB-supported projects that address poverty or environmental objectives tend to be in the urban development subsector, including housing finance. But the trend toward lending to state governments (e.g., Gujarat and Madhya Pradesh) may offer the greatest potential for sharpening the poverty focus of ADB's India portfolio.

Nevertheless, increasing ADB's present level of contribution to poverty reduction in the PRC and India (and in other countries borrowing nonconcessional funds from ADB) is a challenge and may call for new lending instruments.

Selection of projects

In selecting projects, ADB will favor those that promise the biggest return in terms of poverty reduction. To this end, all three pillars of the strategic framework will be part of the mix of assistance offered to each country. Figure 2 depicts the way in which the pillars will influence the overall program.

ADB recognizes that it is often difficult in the case of individual countries to decide how much emphasis to place on poverty interventions and how much on more growth-oriented investments. Where past performance in poverty reduction has been weak and/or inequality is rising, the emphasis will be on governance and social development. In countries where essential reforms have been undertaken or are under way, growth-oriented investments will reduce poverty. In choosing

Figure 2: A Matrix for Poverty Reduction

	Strategic Pillars	Interventions		
		Short-Term	Medium-Term	Long-Term
Poverty Reduction	Pro-Poor, Sustainable Economic Growth		Private Sector Development	
			Regional Cooperation	
		Agriculture and Rural Development		
	Good Governance	Environment and Natural Resource Management		
		Transport, Communications, Energy, and Finance		
			Public expenditure management and administration	
			Decentralization (Devolution)	
	Social Development	Stakeholders' Participation		
		Social Protection		
			Health and Education	
		Water Supply and Urban Development		

between projects ADB will use specific assessment techniques,¹⁴ while giving attention to the likely impact on poverty of investments in different sectors (Box 4). To increase understanding in this critical area, ADB will intensify its analytical work so as to more confidently offer optimum support for poverty reduction.

In each country, the mix and nature of projects will be shaped by the poverty analysis. This will help ensure that ADB tackles actual constraints and not merely symptoms. For example, widespread malnutrition or illiteracy may be caused by inadequate investment in public health or education, but (equally) may be the result of social exclusion, gender discrimination, or poor local governance. Finally, when designing interventions, consultations with the poor are essential to ensure their priorities and preferences are truly being addressed.

¹⁴ The techniques will include beneficiary incidence and distribution assessments. These techniques are used to relate the frequency of use of a subsidized service (e.g., health clinics) to the income level of the user.

Box 4: Prioritizing Poverty Reduction Efforts in Bangladesh

ADB recently commissioned a study to review the outcome of development efforts and rank their potential impact on poverty. The findings—expanding human capital has the largest impact on poverty, next come investments in physical infrastructure such as roads and electricity, and then efforts to spread high-yielding agro-technology. The study highlighted the synergies to be gained from human development and infrastructure, and from infrastructure and microfinance. Area development programs that centered around agriculture, infrastructure, and microfinance also demonstrated high potential.

After reviewing ADB's portfolio in Bangladesh, the study suggested that many traditional projects offered scope for increasing the involvement of women. It also suggested that basic health and nutrition should feature more prominently in future ADB programs. The study cautioned against involvement in sectors that lacked strong internal leadership, whether from Government or civil society. The fear of unsatisfactory performance in individual projects led to a strong endorsement of ADB's increasing focus on policy-based lending and its emphasis on being a knowledge-based institution.

Crosscutting priorities

ADB will promote good governance through the way in which it processes projects, as well as through specific governance-related initiatives. Procedures for identifying and designing projects will help empower the poor and civil organizations that represent them. All dealings with public sector entities will be through transparent procedures that ensure full disclosure of information. This will also require effective stakeholder participation to establish the priorities and targets for poverty reduction and to help direct project identification and design. Specific projects will seek to improve public expenditure management at central and local levels, increase government accountability through fiscal decentralization and local empowerment, and develop effective regulation of financial markets and public utilities.

The contribution of the private sector to poverty reduction will be enhanced through enterprise development, expansion of infrastructure and other public services, and improvement of corporate governance and responsibility. Enterprise development will likely be handled through intermediary institutions, themselves usually in the private

sector. ADB will explore innovative approaches, including "challenge funds,"¹⁵ to encourage the private sector to extend financial services and marketing support to groups currently excluded. Private operators could be enabled to increase their participation in providing infrastructure and public services and in projects targeting the poor. Regulatory reform will, however, need to precede sector-specific approaches such as privatization, contracting out, and private-public partnerships. ADB will also seek to influence the quality and terms of employment by promoting better corporate governance and responsibility.

The majority of the poor in the region are women. This necessitates policy changes and investments in women across all sectors. Investments that provide women with access to education, health care, employment, and financial services will constitute a substantial part of ADB's interventions for poverty reduction. Stand-alone projects or project components targeting women will be designed and implemented. Such interventions will be required as long as structural constraints and barriers restrict women's access and participation. This is especially true where cultural traditions dictate the segregation of sexes or in situations where women require special assistance to enable their full participation in economic and social activities. Improving the status of women is central to any strategy to reduce poverty in the region.

Environmental sustainability is, likewise, critical for poverty reduction and is intertwined in development strategies that promote economic growth, enhance human capital (including clean water and sanitation), increase agricultural productivity, and improve the overall quality of life for the poor. As in the case of women, environmental interventions must encompass virtually all sectors of the economy. In addition to stand-alone interventions with specific environmental objectives, many important environmental issues are addressed through projects with other development aims.

15 Challenge funds, as pioneered by the United Kingdom Government, are designed to offer encouragement and incentives to private sector organizations so that they might better accept the risks and uncertainty of tackling new and seemingly unattractive activities.

Sector priorities

Agriculture and rural development

Most of the region's poor live in rural areas and their quality of life lags far behind that in urban areas. Despite increasing urbanization and a wide range of poverty reduction programs, the number of rural poor in most countries continues to grow. However, sustained economic growth in rural areas is likely to have a much higher impact on job creation than equivalent urban growth. This fact, along with the generally low levels of investment in rural development, provides a compelling reason for ADB to reverse its recent drift away from the rural sector.¹⁶ In particular, ADB will give greater emphasis to development of agroclimatic areas that have been bypassed by green revolution technology. ADB will also give greater attention to the social, environmental, and institutional factors necessary to enhance efficiency and productivity in all areas of agricultural production, and associated non-farm activities. Likewise, ADB will vigorously seek new ways to promote private sector activity in rural areas.

For the rural poor, governance must be especially effective and responsive, since the support of government institutions is vital in poverty reduction programs. Unfortunately, rural government institutions are frequently the weakest in capacity, commitment, and accountability. Accordingly, ADB's emphasis on NGOs and user groups will be strengthened to institutionalize and expand the social capital of the poor (especially of poor women) and ensure accountability of public institutions. At the same time, ADB will strive to increase the capacity of local governments to take a more effective role in rural poverty reduction. In the past, institutional capacity building has been focused on government institutions; in future, the emphasis will increasingly be on the client, i.e., community-based organizations, people's organizations, and cooperatives. Such refocusing promotes development through (i) more efficient information and technology transfer, (ii) reduced transaction costs in microfinance and extension operations, (iii) identification of and resource mobilization for local development initiatives, (iv) increased capacity to identify and articulate the

16 *Rural Asia: Beyond the Green Revolution*, ADB, 1999.

more ambitious development priorities requiring external support, and (v) increased power and capacity to demand accountability from public institutions.

At the policy level, ADB will continue to address inefficiencies resulting from inappropriate subsidies, market distortions, and the conflicting signals often given to farmers and rural enterprises. In rural finance, ADB will encourage institutional reform and policies that support the emergence of sustainable and accessible financial institutions. Because nonfarm enterprises are of increasing importance in the survival of the rural poor, particularly women, priority will be given to expanding the very limited coverage and accessibility of microfinance.

The natural environment is of crucial importance to the poor because so many of them depend for their survival on a fragile, and usually dwindling, resource base. ADB support will increasingly address the critical issue of sustainable resource management. This will entail special emphasis on the rights (and responsibilities) of indigenous peoples and traditional users. In turn, this may require support for tenurial rights and traditions and for moving from government control to comanagement by government and the people who depend on the resources. At the policy level, ADB will continue to support governments in developing, in a participatory manner, master plans for effective management of critical water, forest, and marine resources.

Social sectors

ADB will increase its support for human capital development since such investments are frequently the most effective way of breaking the cycle of intergenerational poverty. By supporting efforts to improve policy and institutional arrangements, ADB will help ensure that the poor, especially women, have access to essential social services. Through access to quality basic education and primary health care, the poor will progressively increase their chances of successfully employing their main asset—labor. Improving social protection will reduce risks and indebtedness that otherwise entrap the poor in a vicious circle of poverty.

Education. ADB will provide strong and innovative support to expand access to and quality in basic and nonformal education and skills development, particularly for women, girls, and others excluded

for social or geographic reasons. Special emphasis will be given to promoting gender equity in schooling. ADB will expand its support for equitable, cost-efficient, and relevant education by promoting better performance monitoring, decentralized management, relevant curricula, and stronger linkages to civil society.

Health and Population. ADB will increase its investments in primary health care, including preventative and promotive services targeted towards the poor. Efforts will focus on health issues that disproportionately affect the poor and on population programs. Particular attention will be given to reproductive health care and malnutrition because of its pervasiveness and significance in perpetuating poverty. ADB will continue to promote early child development (Box 5) because of its strong links to poverty reduction. At the policy level, the performance of the overall health system in reaching the poor, especially women, will be closely monitored. Special attention will also be given to involving the private sector and NGOs to increase efficiency and outreach.

Box 5: Poverty Reduction through Early Childhood Development

Poverty reduction is best sustained when the lives of young children are transformed. Early childhood development (ECD) programs, such as ADB's project in the Philippines (jointly financed with the World Bank), target preschool children of the poor and address the health, nutrition, psychosocial, and cognitive development needs of vulnerable children. Reversing life-long risks to a healthy and productive life is most critical and cost-effective in the preschool years. ECD programs create life-long benefit streams for families, lower the cost per child of public health and education programs (through reduced illness and higher schooling attainment), and raise the real rate of economic growth and family incomes over generations.

The Philippine ECD project (1998-2003) is a model of poverty and performance targeting. Indicators of undernutrition, mortality, and primary school dropouts were used to rank about 1,500 municipalities and chartered cities according to the number of children at developmental risk. One hundred and seventy local governments were selected in Visayas and Mindanao provinces, and a target of 5 million children. Under the project, cost-sharing is negotiated between the national and local governments, reflecting the municipality's ability to pay. The municipality must meet minimum standards of health, nutrition, and early education services to all children in need or national subsidies are withdrawn. ADB's assistance finances essential services and support to local governments for community mobilization, information systems, and project management.

Social Protection. This recent area of ADB involvement is an essential component of a comprehensive social policy. To address the social protection need, ADB will support programs to cushion the adverse effects of shocks (especially those affecting women), a critical element in breaking the cycle of poverty. Support will be designed to bolster economic security for the poor through the development of social assistance for the vulnerable; social insurance against risks of unemployment, disability, work-related injury and old age; and labor market programs.

Urban Development. Because of the continuous migration of rural poor to urban-based economies, urban poverty is rising. Millions of poor families now reside in "squatter" settlements. Access to municipal services, such as safe drinking water and sanitation, is notoriously poor. Many urban poor find their livelihood in the informal sector where poorly developed microfinance markets limit access to affordable credit for working capital, housing, or other purposes. When rapid and uncontrolled growth damages the urban environment, the poor are most affected.

To address this situation, ADB will support the development of accountable local governments and improved urban management. Sector agencies will also be supported to ensure sound environmental management. Greater private sector and community participation, the creation of a conducive policy environment, and the use of market-based approaches will be essential elements of this strategy. Finally, ADB will support equitable, cost-effective, and sustainable investments in microfinance, water supply and sanitation, upgrading of informal settlements, and innovative schemes for the provision of low-income shelter and basic services.

Infrastructure and finance

Because poverty in the region is concentrated in rural areas, ADB will give priority to projects impacting directly on the poor. These include rural roads and electrification, promotion of small and medium enterprises, and water supply and sanitation programs (wherever the absence of basic services jeopardizes the health of the poor). Special attention will be paid to job creation in the design, implementation, and operation of projects.

Transport and Communications. The focus in transport and communications will be on reducing costs of transport to and from rural areas and between growth centers, and increasing access of the poor to markets, education, health care, and employment. Preference will be given to locating projects in poorer parts of countries or those that connect poor or isolated areas to the economic mainstream. Concerted efforts will be made to find innovative ways of harnessing the potential of information technology so that it enhances, rather than militates against, the human capital and market access of the poor.

Energy. Increased emphasis will be given to rural electrification and renewable energy. Where feasible, this will be promoted in conjunction with microfinance access to provide affordable energy to isolated communities. The introduction of competitive markets through restructuring of public utilities and private sector participation will also be necessary to ensure energy supply to industry and households at the most economic cost. Where traditional power projects continue to be unattractive to the private sector, governments and ADB may have to maintain their investment role to ensure an adequate supply of electricity.

Finance. Policy reforms and market infrastructure will be promoted to encourage the emergence of sustainable financial institutions geared to better serving the needs of medium-, small-, and micro-enterprises. Sound and efficient banking systems and capital markets will also be promoted, since these remain indispensable for macroeconomic stability, mobilizing savings, and ensuring availability of long-term financing, an essential requirement for pro-poor growth.

Using new tools

To make antipoverty operations more effective, ADB must choose the right modality of assistance. In some situations, new instruments or new ways of using existing ones may be required. Investments in the social sectors work best when preceded by policy and institutional reforms; this suggests increased use of longer term, sector development programs, where front-end support for policy change and capacity building pave the way for productive investment. Slow disbursing policy-based lending in support of national poverty reduction programs

could be considered, with a view to ensuring that such programs are correctly targeted and effective. Since poverty solutions are not always obvious, careful note will be taken of pilot projects by bilateral agencies or NGOs. Where no such efforts have been undertaken, ADB may initiate pilot loans to test innovative approaches. As such loans are necessarily small and flexible and have learning objectives, they will warrant simplified approval procedures.

ADB will take initiatives to bring its operations closer to the poor. Such measures could include lending directly to local governments, promoting social investment funds, and supporting NGOs that have proven track records in working with the poor (Box 6). Exploring new approaches for expanding social capital and participation (e.g., to strengthen participation of previously excluded groups and communities in local government) may call for innovative mechanisms. Strengthening capacity in civil society may require a regional program involving apex NGO bodies.

Box 6: Working with NGOs and the Private Sector to Reach the Poor

For the millions of poor in the hilly areas of Nepal, access to government services has long posed problems. For almost two decades, ADB attempted to bolster the outreach of traditional government banking facilities. However, sustainability remained low and coverage disappointing. After extensive review and piloting of more innovative approaches, it was clear that much more responsive and flexible financial intermediaries were needed. In 1998, ADB negotiated an innovative agreement with the Government, commercial banks, and NGOs to establish the Rural Microfinance Development Centre with the majority of the paid-up capital held by commercial banks. The microfinance fund will link the commercial orientation of private sector banks to the local presence, knowledge, and commitment of NGOs, Grameen Bank replicators, and cooperatives to provide sustainable access to microfinance. The fund expects to support up to 50 qualified intermediaries and cover more than 250,000 borrowers, most of them female.

Monitoring impact

Strategies are more effective if outcomes are monitored and the results fed back to improve performance. However, outcomes such as declines in the proportion of people below the poverty line, illiteracy rates, and

gender gaps take time to achieve. Hence, there is need to develop poverty indicators that provide early information on progress in approaching the desired outcomes. Under the partnership agreement with governments, such indicators will be identified for each critical area of poverty. Since poverty measurement is a complex matter, ADB will help borrowing countries improve their capacity to generate timely and reliable data, as well as indicators that are comprehensible and easily used. In monitoring progress toward the agreed targets, ADB will assist borrowing governments to refine policies and programs for poverty reduction. In the process, ADB will also become more accountable for its own work. To better gauge the impact of specific projects and strategies, evaluation will focus increasingly on impact assessment. To complement more rigorous evaluation processes, greater use will be made of faster, more qualitative measures, especially those in which the poor are direct participants. ADB's resident missions will increasingly play an important role in monitoring activities.

Coordination among funding agencies

Development institutions have an obligation to use scarce resources with maximum efficiency and impact. While recognizing that the recipient country should be directing coordination of external funding, ADB will, in all its analysis and programming activities, integrate its efforts closely with those of governments as well as other development agencies. By coordinating with other agencies and, where appropriate, NGOs, ADB will enhance its effectiveness, avoid duplication, and accelerate its learning. In this context, ADB will, in cooperation with other agencies, examine the effectiveness of the comprehensive development framework proposed by the World Bank. To this end, the concept is being pilot-tested in two borrowing countries, Kyrgyz Republic and Viet Nam.

As an integral part of its strategy, ADB will also pursue innovative forms of cofinancing to increase synergy and efficiency in poverty reduction efforts. For example, where bilateral agencies are active in developing the software necessary for poverty reduction (local organizations, extension systems, etc.), ADB may collaborate in financing the associated requirements for physical infrastructure.

A program for action

A strategy is only as good as its implementation. ADB's commitment to strive for an Asian and Pacific region free of poverty must therefore be reflected in the way it goes about its work. ADB will accordingly bring to bear the full weight of its resources, instruments, and business processes in the pursuit of poverty reduction. This chapter sets out important actions and activities that will be carried out in this endeavor.

Retooling for poverty reduction

Beginning in 2000, ADB will prepare an annual action plan for poverty reduction. The plan will identify all poverty-focused activities to be undertaken during the year. The activities will include the country operational strategies to be initiated, poverty and core poverty interventions, and poverty-related technical assistance to be processed or implemented.

By the end of 1999, ADB will assign, to all operational departments, staff whose functions will be to

- (i) prepare and monitor the implementation of departmental action plans for poverty reduction;
- (ii) provide technical support to staff undertaking poverty operations; and
- (iii) exercise quality control over the department's poverty reduction activities (such as poverty analysis, poverty and core poverty interventions).

To signal commitment to the strategy, and help drive its implementation across the institution, ADB will establish, by the end of 1999, a poverty reduction unit directly responsible to top management. The unit will provide the analytical and operational framework to guide all departments and offices concerned with implementing the Poverty Reduction Strategy, and monitor progress. To this end, the unit will

- (i) prepare and monitor implementation of the annual ADB-wide action plan for poverty reduction, and ensure quality standards;
- (ii) help define the data requirements for poverty statistics and develop the poverty research agenda;
- (iii) prepare operational guidelines and a staff handbook on design of poverty interventions; and
- (iv) prepare progress reports, organize conferences and forums, and promote dialogue on poverty reduction in the region.

The need to continue the unit will be kept under review, in light of progress achieved in mainstreaming poverty reduction in ADB.

Greater efforts will be made to encourage a multidisciplinary and country-focused approach to poverty reduction. It will be critical for ADB staff to "think poverty" at all times. By 2002, ADB will ensure that all departments concerned acquire the skills needed for antipoverty activities (e.g., gender assessment, public expenditure review, institutional analysis, and facilitation of stakeholder consultations and participation). To this end, staff positions will be redeployed to ensure that operational departments will be able to obtain the requisite expertise and experience. However, since this by itself is unlikely to be sufficient, a significant number of new staff positions will also be required.

ADB will provide for all operational and new staff, including heads of departments and managers, training in poverty reduction methodologies and techniques.

ADB will strengthen its resident missions to facilitate effective implementation of the Poverty Reduction Strategy. The resident missions will monitor the poverty indicators and milestones set out in the partnership agreements and assist in gathering and disseminating

up-to-date information and data on poverty. Wherever possible, ADB will engage local professionals to assist in these activities.¹⁷

Beginning in 2000, ADB will implement an accelerated program to strengthen its statistical database on poverty. In addition, the ADB Institute will enhance its work program and activities on poverty issues facing the region.

New instruments

ADB will be creative in the way it finances poverty operations. This will include

- (i) considering special terms for poverty reduction projects financed from ADB's (nonconcessional) ordinary capital resources, to enable ADB to sharpen its focus on poverty in countries that have access only to this lending window (such as the People's Republic of China and India);¹⁸
- (ii) exploring the need for special purpose funds (e.g., to support the contribution of civil society to development, or promote private sector involvement in poverty reduction); and
- (iii) making greater use of existing instruments, such as pilot projects, sector development programs, and social investment funds that are especially suited to poverty reduction operations.

Program and lending targets

ADB will

- (i) beginning in 2000, develop partnership agreements that set comprehensive program targets for lending and nonlending activities in each of its borrowing countries;
- (ii) devote not less than 40 percent of its public sector lending to poverty interventions by 2001; and

17 Where possible, cofinancing will be explored for this purpose, as in the case of the gender specialists financed through trust funds made available to ADB.

18 *Review of OCR Loan Changes*, Issues Paper, ADB, 1999. Options that could be considered include lengthening the final maturity and/or the amortization schedule of the loan.

- (iii) substantially increase its lending for core poverty interventions by 2002.

Working with partners

ADB will

- (i) offer support to strengthen capacity in borrowing countries to measure, analyze, and monitor trends in poverty beginning 2000;
- (ii) involve stakeholders in the process of poverty analysis and encourage their participation in the high-level poverty forums (that precede the country operational strategies and partnership agreements); and
- (iii) build on the work of other multilateral and bilateral agencies, and NGOs, expand coordination with them, and make best use of their comparative strengths through innovative cofinancing arrangements.

Monitoring progress in poverty reduction

ADB will

- (i) report annually to the Board of Directors on its poverty reduction efforts and the progress being made toward meeting national and regional poverty reduction targets; and
- (ii) convene, every three years, beginning in 2000, an Asian and Pacific poverty forum, comprising representatives from governments, civil society, and the funding community, to review progress of efforts by ADB and borrowing countries to reduce poverty.

Review of the strategy

ADB will review this strategy after three years.

Poverty measurement, definitions, and targets

Poverty numbers

Counting the number of poor people in the Asian and Pacific region is not easy. Compounding the usual technical problems of estimation is the difficulty that countries employ different (income-based) poverty lines. Some are set low, to focus attention on the poorest people, while other poverty lines are more generous. A further complication is that poverty data are not available for a number of countries, and data that are available, are not readily comparable between countries. Aggregating the number of poor for the region and drawing comparisons therefore presents intractable problems. Partly for these reasons, the World Bank uses an international poverty line of \$1 per person per day (at 1985 purchasing power parity prices).¹ However, this measure differs from the poverty lines used by individual countries, most notably in the case the People's Republic of China (PRC) and India, where national poverty lines are significantly lower.

The figures cited in the main text are based on World Bank data.² The figures differ significantly from national poverty estimates. For

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- 1 The accuracy of estimates based on the \$1 per person per day measure depends on the regular conduct of living standards measurement surveys in all developing countries and on regular updating of the International Comparison Program. For these and other reasons, much work remains to be done before reliable cross-country comparisons can be made.
 - 2 *Developing and Transitional Economies: Population living below US\$1 per day in 1987–1998*, PREM Advisory Service, World Bank, 1999.

example, PRC and India estimate the number of their poor as 75 million and 350 million, respectively, whereas the World Bank estimates 225 million in the PRC and 450 million in India.

Key definitions

Table A1.1 defines some key terms.

Given the multiple dimensions and relativity of poverty, definitions and concepts of poverty continue to evolve. Nevertheless, due to the efforts of governments and the support of the United Nations Development Programme, World Bank, and other agencies, major progress has been achieved over the last few years. A driving force behind this progress has been the recent international consensus on targets for poverty reduction and how they should be monitored.

International targets for poverty reduction

Through a series of United Nations conferences, principally the World Summit on Social Development in 1995, the international community agreed to a common set of targets for reducing poverty. In 1996, the Development Assistance Committee of the Organisation for Economic Co-operation and Development endorsed seven of these as the Strategy 21 goals. These are international, not regional, goals and to some extent are biased by the African situation. The Asian Development Bank supported the Fifth Asian and Pacific Ministerial Conference in 1997, which resulted in a comprehensive set of targets outlined in the Manila Declaration.³ The salient features of both sets of targets are indicated in Table A1.2.

3 *Manila Declaration* on "Accelerated Implementation of the Agenda for Action on Social Development in the ESCAP region." Note that the targets listed in the table represent only a portion of the strategies and objectives agreed upon.

Table AI.1: Key Terms and Definitions

Key Term	Definition
Human Poverty	The lack of essential human capabilities, notably literacy and nutrition.
Income Poverty	The lack of sufficient income to meet minimum consumption needs.
Absolute Poverty	The degree of poverty below which the minimal requirements for survival are not being met. This is a fixed measure in terms of a minimum calorific requirement plus essential nonfood components. While absolute poverty is often used interchangeably with extreme poverty, the meaning of the latter may vary, depending on local interpretations or calculations.
Relative Poverty	Normally defined in relation to some ratio of the absolute poverty line or, as in developed countries, as a proportion of average income per capita. As a relative measure, it can differ across countries or over time.
Human Development Index	United Nations Development Programme (UNDP) composite of three factors (i) life expectancy at birth, (ii) adult literacy, and (iii) income per capita (adjusted for purchasing power parity).
Human Poverty Index	UNDP measure of deprivation in basic human development. The variables used to determine the index are (i) the percentage of people expected to die before age 40; (ii) the percentage of adults who are illiterate; and (iii) overall economic provisioning, in terms of the percentage of people without access to health services and safe water, and the percentage of underweight children below age five.
Gender Empowerment Measure	UNDP assessment of the level of gender inequality in key areas of economic and political participation and decision making.

Table A1.2: Goals for Poverty Reduction			
Strategy 21 Goals	Target Year	ESCAP^a Goals	Target Year
For economic well-being			
· Reduce by half the proportion of people in extreme poverty.	2015	· Reduce absolute poverty to half the 1990 level. · Eradicate absolute poverty.	2000 2010
For social development			
· Achieve universal primary education.	2015	· Ensure at least 80 percent completion of primary education.	2000
· Eliminate gender disparities in primary and secondary education.	2005	· Provide universal access to basic education. · Ensure equal participation rates for girls and boys in primary and secondary education.	2010 2005
· Reduce by two-thirds the mortality rates for infants and children under 5 and by three fourths the mortality rates for mothers	2015	· Reduce under-five mortality rates to 45 or less. · Reduce per 1,000 live births and infant mortality to 34 or less.	2015
· Provide access to reproductive health services for all females of appropriate age.	2015	· Reduce maternal mortality by three fourths. · Halve 1990 rates of malnutrition.	2015 2000
For environmental sustainability and regeneration			
· Implement national strategies for sustainable development.	2005	· Formulate plans for poverty-focused environmental protection and conservation including plans for land and marine management supportive of local and indigenous communities.	As soon as possible
· Reverse current loss of environmental resources globally and nationally.	2015	· Introduce measures to enforce sound management of toxic wastes.	

a Economic and Social Commission for Asia and the Pacific.

Microfinance and poverty reduction

Microfinance

Microfinance provides financial services to low-income clients, usually landless marginal farmers, or poor urban dwellers working in the informal sector. Microfinance services may include savings facilities, credit, and other services such as insurance. Providers of microfinance may include formal-sector institutions (e.g., commercial and development banks); semiformal bodies such as nongovernment organizations and cooperatives; and other informal and savings and credit organizations. All provide services either on an individual or group-lending basis.

Why microfinance?

As described in the second chapter of the main text, poverty reduction involves the transfer to and building up of essential human, social, and physical capital for the poor. Finding efficient and sustainable mechanisms to achieve this transformation is, however, a major challenge. In recent years, microfinance has attracted considerable attention because of its potential to increase the physical capital of the poor while simultaneously building human and social capital.

The role of physical and social exclusion as important causes of poverty is described in the main text. However, exclusion also extends into the institutional field. For reasons of costs,¹ technology, and

¹ Costs in this context also include risk premia.

institutional bias, about 95 percent of poor households in the region are effectively excluded from access to institutional financial services. The consequences of this are significant. Lack of access means that poor families cannot use investment opportunities to escape poverty. Because of their irregular and unpredictable income, the poor need access to affordable credit and savings for consumption smoothing and insurance against the debt traps that frequently accompany sickness, ill health, and other emergencies. The poor also find it difficult to accumulate savings because they lack access to safe institutions with an interest in small deposits. Despite its limitations, microfinance is, for all of the above reasons, a strategy that must be employed to its maximum potential.

Microfinance technology

The emergence of microfinance reflects the progressive development of techniques to address the traditional barriers of cost, technology, and institutional bias. On the cost side, the greatest impact has been through the introduction of market-based interest rates for all lending, as well as reduction of transaction costs through group-based operations. In terms of technology, the major change has been the substitution of social for physical collateral. Through group-based processes, pioneered by the Grameen Bank and nongovernment organizations, lack of assets to guarantee loans is no longer an obstacle to lending to the poor. The greater financial discipline of women is also used in microfinance since they comprise the majority of clients. The bias of formal lending institutions against the poor at times reflects legitimate concerns out transaction costs of small unit operations. However, in many situations this bias is also interwoven with strong class and caste traditions and misguided perceptions of the poor. One solution has been the emergence of a wider range of institutions to bring financial services closer to poor clients.

Social and human capital links

Microfinance operations frequently depend for their success on mobilizing and organizing the poor so that they can develop sufficient

confidence to save, borrow, and invest. Because an acute lack of confidence is a common corollary of poverty, sensitive and trusted agencies must be used for this task; in a few situations this can be tackled by staff from government agencies or banks. On the positive side, investment in social preparation yields long-term benefits in terms of social and human capacity building. Organizing women and then involving them in microfinance are effective ways to assist and empower poor women. The formation and operation of savings and borrowers groups likewise builds confidence, trust, and social capital. Similarly, involving borrowers in entrepreneurial activities directly builds their skills and indirectly contributes to improved health and reduced risks.

The new paradigm

Major changes have occurred in recent years in the paradigm for microfinance operations. Schemes based on subsidized credit and directed lending in contexts of controlled interest rates are now recognized as misguided. The Asian Development Bank (ADB) endorses the new consensus that emphasizes full cost recovery and creating sufficient profitability in the longer term to encourage further outreach. The guiding principles involve (i) supporting service providers to become sustainable institutions that, after initial assistance, can support their own growth; (ii) providing support for investments in social intermediation; and (iii) recognizing that microfinance institutions must charge interest rates high enough to cover the higher transactions costs and risks associated with unsecured small loans.

ADB's role

ADB has long supported the development of the financial sector in borrowing countries. In the past, attention has been focused primarily on the role of major financial institutions and their capacity to support investment and growth. While the ADB will continue its interest in this area, ADB will greatly increase attention to microfinance because of its relevance to the poor and to poverty reduction. The major challenge confronting microfinance is the urgent need to build the capacity

of service providers while maintaining the necessary financial standards and discipline. Where banks and formal institutions are already pro-poor, this will mean devising and supporting appropriate outreach mechanisms. More challenging will be the situation where there are no institutions appropriate for the poor. The lack of financial technology and a sustainable institutional mechanism to reach those in resource-poor areas and the poorest of the poor also presents a significant challenge. ADB will have to promote a wide range of institutions and adopt a multipronged approach to meet these challenges.