

# Including pro-poor growth within agency policy: The example of Asian Development Bank

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Despite impressive reductions in income poverty, the Asia-Pacific region still has nearly two-thirds of the world's poor. Rising inequality constitutes a threat to growth (Kanbur 2006). Asian Development Bank (ADB)'s 2005 annual report finds that 'those living on less than \$2 a day still number about 1.9 billion, or nearly a third of the world's population'. The report confirms that 'reducing poverty must continue to be the guiding priority of the ADB in the years ahead' (ADB 2005a:4).

This paper outlines the Bank's key pro-poor policies and strategies, along with its weaknesses in ensuring the programmes it supports are indeed helping the poor.

A consensus on the definition of pro-poor growth has proved elusive (Lopez 2004). For example, Ravallion (2004) has defined pro-poor growth as any increase in GDP that reduces poverty, whereas Kakwani et al. (2004) contend that growth is pro-poor if it benefits the poor proportionally more than the non-poor. Broadly defining 'pro-poor' for the purpose of this paper as aimed at reducing poverty, involving the poor, benefiting the poor, and improving governance and accountability for the poor, ADB has made significant progress in articulating potentially pro-poor policies.

## Background

Twelve years ago, ADB had only one policy related to poverty reduction: a lone policy on women in development, approved in 1985. By 2006 there were multiple potentially pro-poor policies within the framework of an overarching poverty reduction objective. What accounts for such a dramatic increase in policy formulation?

There are many factors. Civil society voices and international trends have undoubtedly had impact. NGO advocacy groups regularly participate in ADB consultations. International trends have been increasingly influential over the past decade, for example, through a process of harmonisation with the World Bank, which had already adopted similar policies. Private sector initiatives have also begun to have impact. Forty-five financial institutions in more than 14 countries have now signed the Equator Principles, a voluntary code on social and environmental safeguards for the private sector launched by major banks in 2003.<sup>1</sup>

ADB has recently signed the Paris Declaration on Aid Effectiveness and adopted the Millennium Development Goals (MDGs) – a set of income and non-income based targets for poverty reduction by 2015. Such developments change the global architecture on poverty reduction, and undoubtedly influence ADB's policies.

There are other contributing factors. The 1997 Asian financial crisis that sent shock waves around the ADB's region dramatically increased absolute poverty. In-house initiatives contributed, especially with ADB's appointment in January 1999 of a President who championed poverty reduction; and the gradual increase of in-house capacity through recruitment of specialists in gender, social development, resettlement, indigenous peoples, governance, and poverty reduction.

How does ADB manage this rapid escalation in policy formulation? A key test of ADB's policies is, obviously, in their implementation. Different perspectives of development and opposed theoretical frameworks can make policy formulation and implementation contentious. Cernea argues that 'social policies are a process, not a one-time act. New approaches are inherently fragile at the outset, before growing stronger roots, and are contested' (Cernea 2005:27).

I will briefly review the pro-poor elements of key ADB policies.

## ADB's key pro-poor policies

*The safeguards:* The 1995 *policy on involuntary resettlement* addresses the risk to people involuntarily displaced by development projects. Such people receive assistance 'so that they would be at least as well-off as they would have been in the absence of the project' (ADB 1995:paragraph 33), with measures to restore the full economic and social base, including livelihood restoration. This policy targets those people who will be deliberately placed at risk of impoverishment, whether they are currently poor or not, so that the project might proceed. The poorest affected people merit particular attention through efforts to improve their status (ibid: paragraph 34 vii).

Resettlement planning for projects is based on a sound development strategy formulated through initial social assessment, socioeconomic survey, information to and

consultation with people affected. The 1995 policy offers strategic advice going beyond the principles and project practice to enhance the wider macro framework of national laws, regulations and institutions (ibid:paragraphs 34-45).

According to the 1998 *policy on indigenous peoples*, ADB's interventions must ensure that indigenous peoples are 'at least as well off as they would have been in the absence of the intervention, or that adequate and appropriate compensation is provided' (ADB 1999b:25). This necessitates consistency with indigenous peoples' needs and aspirations, and compatibility in substance and structure with social, cultural and economic features of their communities.

Poverty is not a necessary condition for defining indigenous peoples although by implication, through their vulnerability, indigenous peoples may be represented disproportionately among the poor. Initial social assessment and socio-economic survey underpin the preparation of Indigenous People's Plans. Informed participation, and equitable impacts are key planning elements.

These two social policies together with the *environment policy* (ADB 2002), comprise ADB's safeguard. All projects must satisfy a safeguard compliance review before their approval (ADB 2005d:6).

*Other social development strategies:* The 1998 *policy on gender and development* (GAD) supports one of ADB's strategic development objectives, to improve the status of women. Mainstreaming is a key strategy in promoting gender equity — that is, to consider gender issues in all aspects of ADB operations and to encourage women to participate in decision making. The policy provides GAD support and capacity building at country level; and, at project level, gender analysis and planning in all ADB activities at all stages of the project cycle.

The GAD policy rationale supports both social justice and poverty reduction. Women are disproportionately represented among the poor, so therefore 'measures to expand women's economic opportunities and increase their incomes, or promote improvements in women's health and education, result in greater economic efficiency and decreased levels of poverty' (ADB 1998:5).

ADB's *social protection strategy* (ADB 2003) aims to reduce poverty and vulnerability by promoting efficient labour markets, diminishing people's exposure to risks, and enhancing their capacity to protect themselves against hazards and interruption or loss of income. The strategy assumes that growth alone is not sufficient to protect people from risks that can plunge them into poverty.

Several other policies also have pro-poor elements. ADB's 1995 *governance policy* highlights the importance of good governance at the grassroots as a basis for poverty reduction. A review for both governance and anti-corruption (ADB 2006d)

recommended strengthening ADB's country poverty analyses on governance issues. It recommended higher priority to investments in local transparency, participation, and complaint mechanisms; and building strong preventive measures against corruption into project design and implementation.

ADB approved a *policy on co-operation with non-government organisations* in 1998 providing for NGO participation in ADB activities, including regular consultations. NGOs play a key role in delivering ADB's bilateral poverty reduction funds.

ADB approved an *inspection function* in 1995, and revised it in 2003 as the *accountability mechanism* with two separate but related functions. First, it assists peoples adversely affected by ADB-assisted projects to solve their problems. If that fails, it establishes ADB's accountability in its operations by providing a forum in which project-affected people can file requests for compliance review (ADB 2004c).

ADB's 2005 *public communications policy* assumes that increased and early access to information helps ADB to become accountable to the people it affects, and to the taxpayers of member countries that finance ADB operations. There are confidentiality provisions, but the policy favours disclosure of sensitive information if the public interest outweighs any harm caused to ADB.

## The goal: poverty reduction

ADB formally adopted poverty reduction as an overarching goal in 1999. Recognising the multidimensional nature of poverty the *poverty reduction strategy* (PRS) introduced three pillars for 'socially inclusive development' (ADB 1999a:7): pro-poor sustainable economic growth, social development and, in support, sound macroeconomic policies and good governance. The PRS advocated inclusive social development programmes to enable the poor and disadvantaged to benefit from economic growth. This encompassed human capital development and basic services directly for the poor, on grounds that access to basic education, health care and other services such as family planning, improves the quality of life and allows the poor to benefit from growth; and to help reverse discrimination and exclusion.

The PRS envisaged that ADB, as a development bank, would contribute most effectively in the medium to long-term on structural change, policy reform and pro-poor investments. In social development, ADB would focus on human capital development, targeting basic services to the poor, removal of gender discrimination, an effective population policy, social protection, and enhanced social capital. The strategy recommended strongly participative poverty analyses, and country partnership agreements, as a basis for formulating country plans and programmes. The PRS expected all projects to demonstrate pro-poor outcomes, whether through pro-poor

growth, direct poverty reduction, or 'core poverty targeting' (ibid:19-20) and 40 per cent of ADB projects should be poverty interventions. Bilateral donors set up poverty trust funds to support the strategy.<sup>2</sup>

In 2004 the *enhanced PRS* (ADB 2004a) maintained these three pillars, adopting the MDGs as targets. Since these goals have both income and non-income targets, their adoption reinforced the rationale for the social development pillar.

Over the last decade, ADB has developed a potentially pro-poor policy agenda with a wide range of mutually reinforcing policies and strategies. To what extent does this agenda shape ADB's operations to achieve pro-poor outcomes?

## Challenges for policy implementation

An internal review (ADB 2004b) did not assess project outcomes in reducing poverty. However, it found that the PRS had had a profound impact on the organisation, its structure and its business practices, through adoption of consultative processes, supported by poverty analysis, at national and project levels. The review also identified problems.

Of the three pillars, the social development pillar has been the most difficult to support. Reduced lending under ADB's Ordinary Capital Resources (OCR) for social development was only partially offset by increased concessional financing under the Asian Development Fund (ADB 2004b:ii). This meant ADB's borrowers had declining interest to borrow for purposes of human capital development, basic services for the poor, gender, population policy, social protection, and social capital. The review also found that, for countries of the region, progress in meeting the non-income MDGs was lagging (ibid:ii-iii).

The report recommended identifying ways more effectively to 'respond to the region's relatively poor record in reducing non-income poverty' (ibid:27) but offered no firm directions for ADB operations given the underlying lending constraint. This raises questions about ADB's ability to sustain the essential social content of its poverty reduction agenda.

The review characterised as too narrow the PRS definition of poverty intervention as those projects designed to benefit the poor disproportionately through household and individual targeting. The review found that poverty targeting increased both complexity and demands on executing agencies and highlighted the 'gap between ADB's mandate and its human resources' (ibid:iii). The review recommended dispensing with numerical lending targets and specific sectors, which might distort the programmes at country level (ibid:32, 33, 40). By 2004 ADB had abandoned this system.

By its own admission, ADB faces the challenge of continuing relevance in the region. The current medium-term strategy states that 'ADB's own scale of investment is small compared with the region's size and its impact is at best marginal' (ADB 2006b:7).

ADB struggles to find practical and client-centered ways to implement its poverty reduction 'vision'. During the period 2001-2005 'ADB's own scale of operations stagnated despite the huge development needs of the region. This raises concerns about ADB's relevance and responsiveness. These concerns provide the basis for ADB's strategic operational priorities' (ibid:5).

New capital flows into the region challenge the role of multilateral development banks, for example, recently announced aid initiatives from China that dwarf ADB's financing in its home base, the Philippines.<sup>3</sup> Meanwhile, borrowers struggle to repay ADB loans. The 2005 ADB annual report finds that, after adjustments, 'the annual ... loan approvals had stagnated at about \$5.2 billion a year in the past decade, and OCR disbursements had declined steadily. Income from OCR lending fell by 43 per cent from 2001 to 2004, resulting in a 38 per cent drop in ADB's gross annual income.' (ADB 2005a:6).

ADB concluded that its traditional lending forms are 'not meeting many of the needs of its key clients, and that new products and less arduous procedures were needed to improve the effectiveness of its development activities' (ibid:7). Key issues include the need to speed up processing times, to reduce perceived transaction costs, to delegate more authority and accountability to strong Developing Member Countries (DMCs); and for special assistance to 'small, vulnerable, and/or weakly performing DMCs' (ibid:8).

The annual report states that ADB is addressing such issues through a strategic partnership framework with middle-income countries encompassing a new business model (ibid:11). These discussions highlight 'the need to increase country ownership and capacity in delivering safeguard outcomes, and to adopt safeguard procedures that reflect the varying capacities of the DMCs' (ADB 2005b:1). The medium-term strategy specifically recommends that, in a bid to enhance 'responsiveness, flexibility and efficiency, ADB among others, should consolidate the safeguard policies for greater effectiveness and efficiency' (ADB 2006b:19). Lending patterns provide an important clue as to why the medium-term strategy views the safeguards as a constraint.

ADB's safeguard affects a significant number of projects. From 1998-2005 half of all projects approved had involuntary resettlement planning, while 28 per cent had some kind of indigenous peoples planning. For environment, 11 per cent of projects approved between 1997-2005 were rated environment category A and 56 per cent category B (ADB 2006c), both categories necessitating environmental planning actions. Moreover, compliance and accountability issues raise the profile of the three safeguard policies, since 'it is the safeguard policies that are at the front line of ADB's accountability mechanism' (ADB 2005d:5).

ADB launched a safeguard review in 2005 to 'enhance the effectiveness and outcome orientation of ADB's safeguard policies while at the same time streamlining procedures and reducing transaction costs ... (and) to introduce procedural flexibility in the application of safeguard policies while increasing country ownership/capacity' (ibid:4). It also addressed the 'new and emerging financing instruments in ADB operations that have presented particular challenges in both policy interpretation and operational application, such as the approach to safeguard applications in ADB-financed equity investments, securitisation, guarantee and complex financial intermediation' (ibid:8).

ADB's 2006 *evaluation of involuntary resettlement safeguard* (ADB 2006a) illustrates how these issues are being addressed. This evaluation took a very restricted definition of the 1995 Policy scope, arguing, despite ADB's own policy objective for 'inclusive social development' (ADB 2004a:5), that ADB practice had gone beyond the 1995 policy requirements and become 'too inclusive' (ADB 2006a:iv). This is a convenient claim when trying to reduce a perceived constraint to efficient lending. Although the small samples of project case studies conducted confirmed the findings of an earlier evaluation study (ADB 2000) that restoring livelihoods is particularly challenging for people displaced, the 2006 evaluation study recommended limiting ADB's responsibility in this area.

The evaluation highlighted incremental and transaction costs of resettlement, with only glancing references to likely costs saved by good resettlement planning. It found that assisting the poor and vulnerable is problematic, an incremental cost of doing business with ADB (ADB 2006a:58). Although the evaluation found that the relevance of the 1995 policy to ADB's poverty reduction agenda is 'in principle high' (ibid:55) it overlooked the specifically pro-poor requirement of the original 1995 policy to pay particular attention to the poorest persons affected (ADB 1995:paragraph 34 vii).

Moreover, it reviewed ways of minimising ADB's responsibility for safeguard outcomes. It recommended, for example, making livelihood rehabilitation a goal

'to be aspired to and on the same order as, for example, ADB's intentions to lift beneficiary populations out of poverty. A goal of 'no-one will be worse off' which the policy enshrines, will be exceedingly difficult to meet in every circumstance' (ADB 2006a:56).

If implemented, this recommendation would seriously weaken the concept of the involuntary resettlement policy as a safeguard for those deliberately displaced and at risk of impoverishment by ADB-financed investments.

## Conclusion

While ADB has made significant potentially pro-poor policy changes, in practice it may curtail its responsibilities for

achieving poverty reduction outcomes. ADB maintains the pro-poor 'vision' of being a poverty reduction bank but there are unresolved questions on how to continue this agenda in light of the core business lending imperatives. This applies particularly to the essential social development agenda that underpins the non-income targets in the MDG, as well as the impoverishment-preventing aspects of the safeguard. Where pro-poor policy requirements present perceived bottlenecks or transaction costs to the core business of lending, then they may be threatened.

## Notes

1. The Equator Principles use benchmarks for environmental and social safeguard standards based on World Bank and International Finance Corporation guidelines (Equator Principles 2006).
2. Japan Fund for Poverty Reduction (2000), Cooperation Fund for PRS from Netherlands (2001) and UK Poverty Reduction Cooperation Fund (2002). These funds foster piloting of innovative poverty reduction models for mainstreaming into the programme.
3. See, for example, Perlez's *New York Times* article, 'China Competes with West in Aid to its Neighbors' (2006). China is providing a US\$2 billion aid package to the Philippines annually for the next three years, outstripping the \$200 million that World Bank and ADB are offering separately. This amount exceeded the \$1 billion aid that the Philippines is negotiating with the Japanese. China also provides significant aid to other countries.

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