

Thematic  
Evaluation Study

# ADB's Support for Inclusive Growth



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Thematic Evaluation Study  
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NOTE

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

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# Abbreviations

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
AusAID	–	Australian Agency for International Development
CPS	–	country partnership strategy
CSO	–	civil society organization
DMC	–	developing member country
GDP	–	gross domestic product
ICT	–	information and communications technology
JFPR	–	Japan Fund for Poverty Reduction
kms	–	kilometers
MDG	–	Millennium Development Goal
PRC	–	People’s Republic of China
PRS	–	poverty reduction strategy
RRP	–	report and recommendation of the President



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The study team retains full responsibility of this report.



# Foreword

Inclusive growth has become a catchphrase in discussions of development policies and strategies among practitioners and policymakers. For Asia and the Pacific, where stellar growth is being challenged by still pervasive poverty and rising inequality, inclusive growth must be more than just a highly desirable but rather vague goal: it is an imperative for achieving sustained and equitable growth.

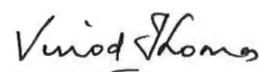
The urgency of achieving inclusive growth is largely driven by poverty and inequality issues. Some 790 million people in the region lived on \$1.25 or less a day during the first decade of the 2000s. Income inequality is rising because economic opportunities that can be achieved through quality education and health care, basic infrastructure, and productive employment are generally not equitably available. Support for measures to address income and non-income dimensions of poverty and inequality are therefore crucial.

Given the need for greater inclusion in the region's growth process, the Asian Development Bank (ADB) adopted inclusive growth as a strategic development agenda under its Strategy 2020. The challenge is to make ADB's inclusive growth strategy an operational reality. The main thrust of this evaluation of ADB's support for inclusive growth over the past decade is to offer recommendations aimed at fostering greater inclusion in ADB operations.

ADB's inclusive growth framework has three pillars: promoting high, sustained economic growth (pillar 1), broadening inclusiveness through greater access to opportunities (pillar 2), and strengthening social protection (pillar 3). The study finds that ADB's priorities have been largely skewed toward pillar 1, leaving limited support for pillars 2 and 3. As the study stresses, growth alone cannot adequately promote social inclusion. Policies and interventions to broaden access to opportunities and build strong social safety nets are also vital for achieving greater inclusion.

The study has a twofold emphasis. First, it urges that ADB support for growth under pillar 1, for example, through infrastructure investment, be made more inclusive. For example, road projects can improve inclusiveness if they are linked with programs addressing education and health care in the same area. Similarly, water and sanitation projects have a better chance of reducing water-related diseases if complemented with education efforts promoting good hygiene. And second, the study calls for an increase in investments for greater inclusiveness—namely, access to opportunities under pillar 2 and for social protection under pillar 3—relative to those under pillar 1.

Such a shift is not just a matter of classifying projects under the three pillars. Rather, it involves designing and selecting projects and country program strategies that incorporate inclusion objectives. The study finds considerable scope for ADB making such a shift in project design and strategy formulation both in public and private sectors in Asia and the Pacific. Doing so will signify a unique contribution from ADB, even if modest in scope, to the region's development trajectory.



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# Executive Summary

Inclusive growth has become a central development issue and a rising economic priority in Asia and the Pacific. Economic growth in the region has been remarkable over the last two decades, but poverty remains pervasive and disparities in income and access to opportunities are growing. Many of the countries in the region and development institutions, including the Asian Development Bank (ADB), have adopted inclusive growth as a development paradigm.

This thematic evaluation study assesses ADB's inclusive growth agenda during 2000–2012.<sup>1</sup> Amid a debate on what constitutes inclusive growth, the study assesses ADB's definition and its strategic framework for promoting it. It looks at how ADB set and monitored its institutional priorities in relation to inclusive growth at the corporate level and through country operations. The study also examines ADB's experience in promoting inclusive growth in six countries—Bangladesh, Mongolia, Papua New Guinea, the Philippines, Tajikistan, and Viet Nam—to identify recommendations for ADB's operations aimed at achieving inclusive growth.

## Defining Inclusive Growth

Under Strategy 2020, inclusive growth is seen as a means to achieving ADB's overarching objective of poverty reduction. The strategy identifies three pillars of inclusive growth: (i) high sustainable growth to create and expand economic opportunities (pillar 1); (ii) broader access to these opportunities to ensure that members of society can participate in and benefit from growth (pillar 2); and (iii) safety nets to prevent extreme deprivation (pillar 3).

Broadly, this study defines inclusive growth as growth with social equity—that is, a growth process in which all segments of the population can participate and benefit, particularly the poor. This broad definition captures the essential elements of inclusive growth as stated in Strategy 2020. The study highlights the links between growth, poverty, and inequality, which are crucial for understanding the inclusiveness of growth.

Inclusive growth is different from pro-poor growth, which is more restrictive and deals with the effectiveness of growth in reducing poverty. Inclusive growth is concerned with how economic growth reduces poverty and inequality and broadens economic opportunity. It is a multidimensional concept. Inclusive growth ensures all segments of society participate in and benefit from growth, especially the poor.

## Inclusive Growth in Asia and the Pacific

Analysis of growth, poverty, and inequality trends reveals that high growth was not converted into the same degree of improvements in living standards and was

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<sup>1</sup> Although the inclusive growth agenda was officially introduced in 2008 in Strategy 2020, the study covers the 2000–2012 period to determine the extent to which ADB operations have changed with the adoption of different strategies.

accompanied by growing income inequality and inadequate access to opportunities—albeit while significantly reducing poverty. This is indicated by the fact that household consumption grew more slowly than did economies overall.

While the region's gross domestic product increased by 9% annually in the 1990s, household consumption only increased by 5.7%. The region's average yearly growth of 8.2% in the 2000s increased household consumption at a rate of only 5.5% per annum. Moreover, income inequality rose by about 1% annually in the 1990s and 2000s, as measured by the Gini index.

High growth was also unable to address disparities in access to opportunities, particularly in basic social services. Worsening income distribution in the region coexists with inequality in opportunities. Progress remains slow in providing access to health care, water and sanitation services, social safety nets, and employment opportunities. For instance, 28 of 38 countries with available data are not expected to reach the Millennium Development Goal of reducing the maternal mortality ratio by 75% by the 2015 deadline. The region has also experienced a decline in the employment–population ratio, although performance at the country level varies. Although the region has considerably widened access to primary education and 24 of 40 countries with available data have already achieved 95% net primary school enrolment, progress has lagged on providing access to secondary education.

Asia's pattern of economic growth can be linked to significantly faster poverty reduction, with about 650 million people lifted out of absolute poverty in the last decade alone. Nonetheless, the uprooting of poverty in the region remains a major piece of unfinished business: 790 million people in Asia and the Pacific still live on less than \$1.25 a day and 1.6 billion on less than \$2 a day.

## Strategic Support for Inclusive Growth

Recognizing that both the pace and pattern of growth matter for poverty reduction, ADB introduced inclusive growth in 2008 as a strategic development agenda under Strategy 2020. Strategy 2020 specifies five core areas of operations at the corporate level: infrastructure, education, financial sector development, regional cooperation, and the environment. ADB's support to promote inclusive growth in its developing member countries is largely channeled through these priority areas. Noncore areas such as agriculture and health are deemphasized in the strategy, even though they have a more direct impact on promoting inclusive growth.<sup>2</sup>

Strategy 2020 takes a different approach from ADB's Poverty Reduction Strategy, which promoted a pro-poor focus in ADB's operations and did not deemphasize operations in agriculture and health. Strategy 2020's shift toward the five core areas has been linked to ADB's perceived comparative advantage in certain kinds of operations. However, this evaluation finds that this shift may be leaving areas that directly impact the inclusiveness of growth in some countries without adequate support.

The crucial question is whether the shift in operations has indeed been in the direction of promoting inclusive growth or simply to favor growth, regardless of how inclusive it may be. This study concludes that ADB has focused its operations on the core areas, particularly infrastructure, and this may have led to a larger than warranted ADB

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<sup>2</sup> Since a large proportion of the poor are employed in agriculture, promoting the agriculture sector is more likely to be pro-poor.

concentration on operations aimed mainly at sustained growth without paying sufficient attention to inclusiveness.

## Operational Support for Inclusive Growth

In terms of the amounts allocated, ADB's corporate portfolio largely targets pillar 1 projects rather than pillar 2 and 3 activities that intend to broaden access to opportunities and strengthen safety nets. Currently, no targets exist for the inclusive growth indicators specified in ADB's new results framework for 2013–2016, particularly dealing with the allocation of resources toward the three pillars. Based on ADB's project classification system, this study estimates that 59% of ADB's total financing in 2000–2012, or more than \$81 billion, are classified under pillar 1 (growth), 30% under pillar 2 (access to opportunities) and 10% under pillar 3 (social protection). Counting stand-alone social protection activities alone, and excluding crisis support to countries, the share of pillar 3 is just 1%. Adequate support across the three pillars, which has also been called for by ADB's staff guidelines on inclusive growth issued in March 2013, is essential to promote inclusive growth.

Categorizing interventions under the three pillars is, however, simply an ex-ante classification or labeling of projects and does not automatically guarantee that the inclusive growth outcome will be achieved. To better ensure that projects categorized under the three pillars actually promote inclusiveness, ADB needs to incorporate clear inclusion objectives in their design. For instance, projects under the pillars may qualify as having the potential to contribute to inclusive growth if they aim to benefit lower-income groups (say the bottom 40%) relatively more.

Growth interventions under pillar 1 can help achieve inclusiveness if their designs pay special attention to benefiting lower-income groups. The Jamuna Bridge project in Bangladesh, which ADB supported, is a good example of pillar 1 interventions that promoted inclusiveness. The bridge unlocked the poorer western side of the country, thereby integrating it with the main economy. More than 30 million people are now connected to the country's main transport and infrastructure network and enjoy lower transport costs and quicker travel times. This better connectivity between poorer and richer regions has created abundant economic opportunities for the poor. Both the poor and the better-off reaped the benefits of this project.

Access-oriented interventions under pillar 2 can contribute to inclusiveness. Pillar 2 projects need to ensure more than just the provision of basic services. They must also foster equitable access to opportunities, particularly for lower-income and other vulnerable groups. One example is an ADB-supported vocational and technical education project in Viet Nam that provided training to the poor and disadvantaged women and ethnic minorities.

Appropriate targeting mechanisms can also help maximize the impact of social protection interventions under pillar 3 of the inclusive growth agenda. Proper targeting is essential to prevent leakage and exclusion and inclusion errors in selecting beneficiaries and to ensure that more resources are allocated to those most in need of safety nets. In the Philippines, ADB is supporting the government's conditional cash transfer program, which employs a proxy means test to select household beneficiaries.

A new ADB project classification system that comes into effect in 2014 provides detailed criteria for classifying projects under pillars 1, 2, or 3. This is useful but does little by itself to improve inclusive project design in a way that ensures that lower-

income groups are included in the growth process. To this end, ADB needs to develop further guidance with detailed good practices. More importantly, the new project classification system—although much improved—needs to be complemented by more attention in project design and implementation to verifying whether inclusive growth outcomes are being achieved. Project administration, traditionally focusing on contract award and disbursement, could evolve into a type of implementation support that addresses a project's potential inclusive growth outcome on a continuous basis.

## **ADB's Contribution to Inclusive Growth in Selected Countries**

The evaluation's six country case studies find that ADB's strategic and operational activities for inclusive growth are disproportionately geared toward pillar 1. In determining the constraints to and the progress toward inclusive growth at the country level, ADB has often extensively analyzed the prospects for rapid growth but accorded little discussion on access to opportunities and the provision of safety nets.

The shares of ADB resources accruing to pillar 1 projects in these countries in 2000–2012 ranged from 51% in Bangladesh to as high as 73% in Tajikistan. This contrasts with the share under pillar 2 projects, which ranged from 18% in the Philippines to 39% in Papua New Guinea. Pillar 3's share was as low as 2% in Papua New Guinea and reached a high in the Philippines, where it was 26%.

Except in the Philippines, a large proportion of pillar 1 projects were infrastructure interventions. About 87% of total resources in 2000–2012 in Papua New Guinea were channeled to infrastructure projects. The corresponding figures were 69% in Tajikistan, 64% in Viet Nam, 57% in Mongolia, and 54% in Bangladesh. Public sector management projects comprised the majority of pillar 1 projects in the Philippines in response to the country's fiscal and structural challenges.

Infrastructure investments are not automatically assumed to promote inclusive growth, but their impact can be maximized if they have given the clear objective of benefiting lower-income groups. This is particularly true of investments that provide connectivity to facilitate people's access to basic services and mobility of goods for greater economic opportunities. This study finds that the impact of ADB's infrastructure investments on inclusive growth can be scaled up. For instance, ADB defines rural infrastructure projects as inclusive because they may promote access to various opportunities for rural populations. However, optimizing the impact of rural infrastructure on inclusive growth is contingent on whether it is linked to schools, health centers, markets, and other services and opportunities. In any case, only 14.1% of ADB's infrastructure interventions targeted rural areas in 2000–2012. Similarly, this evaluation finds that some large road projects supported by ADB during this period, such as expressways in Viet Nam, were not connected to local roads, which would have enabled the poor and other marginalized groups to access opportunities in markets and urban hubs.

The energy sector and transport and information and communications technology (ICT) programs received the largest allocation of resources in 2000–2012. Among the six case study countries, the allocation to transport and ICT projects was highest in Papua New Guinea, at 78%. Energy projects received the largest allocation in Bangladesh, at 29%. Since most energy and transport and ICT projects do not target lower-income groups directly, their potential impact on inclusive growth is indirect. However, this impact could be enhanced through targeted pricing policies so that lower-income groups pay lower prices to access the services generated by these sectors.



Based on assessment of the constraints to and opportunities for achieving inclusive growth in the six case study countries, the study finds that some investments outside infrastructure could render a more direct impact on inclusive growth. Investments in health and social protection, for instance, are important since economies in the region continue to reel under rising inequality and the pervasive non-income dimensions of poverty. In Viet Nam, where ethnic minority poverty is an emerging problem, ADB's forward program plans to withdraw its support for pillar 3 projects. Meanwhile, in Mongolia, Papua New Guinea, the Philippines, and Tajikistan, inadequate job generation due to a narrow economic base calls for ADB's more direct support for industry and trade, which can help generate jobs if projects are properly designed. However, such investments were missing in Mongolia, and comprised just over 1% of the total resources in 2000–2012 in the rest of the case study countries. Greater support for agriculture and social sectors, including education, is also warranted. Improving farm productivity may benefit rural communities, where the majority of a country's poor usually live. Similarly, technical and vocational education can help the poor acquire skills demanded by the labor market. ADB support in these sectors has been scant and in some countries nonexistent.

Selectivity in choosing its areas of operations is undoubtedly important for ADB to maximize the impact of its limited resources. However, its proportionately large investment in pillar 1 projects limits its support for pillars 2 and 3. Human development and social protection gaps left by ADB's current operation patterns need to be filled. Greater synergies between the programs and projects of ADB, governments, and other development partners are needed to provide a holistic approach toward inclusive growth. Current mechanisms are inadequate to determine the best composition and division of development partner project portfolios, particularly in support of the inclusive growth agenda. Greater consultation and collaboration between development partners are therefore necessary to address critical constraints to inclusive growth at the country level.

## Recommendations

On the basis of evaluation's findings, the study offers the following recommendations:

- (i) **Inequality.** ADB needs to gear its support to particular country needs and pay attention to trends in inequality. A simultaneous focus on poverty and inequality in ADB's inclusive growth framework has become increasingly necessary due to the region's changing socioeconomic landscape. Strategy 2020 was formulated at a time of optimism about the region's progress on poverty reduction. However, growth and poverty trends in Asia could be affected by the lingering effects of the global financial crisis, and more recently the repercussions of the tapering of quantity easing measures in the United States and gloomy growth prospects of European economies following the Eurozone crisis of 2009. Inequality is also rising in many countries, leaving the poor and other marginalized groups more vulnerable.
- (ii) **Benefits to lower-income groups.** Each pillar should promote inclusive growth by paying special attention to benefiting lower-income groups relatively more. Pillar 1 projects can contribute to inclusive growth if their benefits reach lower-income groups. This does not imply that every project under pillar 1 should focus on lower-income groups. For example, infrastructure projects that connect poorer areas with better-off ones, or rural roads that provide access to

markets and urban hubs, may promote inclusiveness. Pillar 2 projects should incorporate an analysis of the equality of opportunities available to promote access to and distribution of opportunities. Proper targeting of beneficiaries is important for pillar 3 projects to maximize the resources intended for safety nets provision. A stronger transition from strategic objectives to project design and implementation in this respect is called for.

- (iii) **Country diagnostics.** Stronger inclusive growth diagnostics are needed in country partnership strategies (CPSs). They play a crucial role in properly assessing inclusive growth needs at the country level. The relative emphasis between the three pillars and in the selection of priority sectors should be based on a strengthened rationale and analysis presented in CPSs that incorporate adequate analysis of inequality, poverty and productive employment issues, as well as properly reflect the findings of risk, vulnerability, and gender profiles.
- (iv) **Partnership.** Country teams should pay more attention to synergizing ADB's country programs with government programs and the programs of development partners. Selectivity in areas of operations, while valuable in some respects, weakens the impact of these operations if the complementary areas that ADB leaves to others are not filled. For example, an ADB-supported road project in a country could promote greater inclusiveness if it is connected with schools and health care centers supported by other development partners. Further strengthening of ADB's capacity for developing, facilitating, and monitoring synergies with complementary programs and projects of other donors is imperative.
- (v) **Tracking country program progress.** ADB needs to improve the quality of its tracking of the performance of its inclusive growth interventions. Although staff guidelines incorporate a set of indicators to monitor inclusive growth, these do not include targets at the country level. Country teams must be encouraged to adopt country-level targets for inclusive growth indicators to help improve outcomes. Country portfolio reviews should show the progress on inclusive growth indicators in the form of a scorecard.

# CHAPTER 1

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## Introduction

1. Inclusive growth has become a development issue in Asia and the Pacific. The region's economies have achieved remarkable economic growth over the last two decades, but poverty remains pervasive and disparities in the incomes and opportunities of its people are widening. The region is still home to a majority of the world's poor. Inequality is growing, and current growth—while stellar—is leaving large groups out or behind. The pursuit of inclusive growth is now a development paradigm for many of the region's governments and development institutions, including the Asian Development Bank (ADB).

2. In 2008, ADB adopted inclusive growth as one of its three complementary strategic agendas in Strategy 2020, along with environmentally sustainable growth and regional integration. The inclusive growth agenda has gradually evolved from a growth-centered approach to encompass other social objectives, including the reduction of poverty and inequality and support for human development.

3. This study defines inclusive growth broadly as growth with social equity. A growth process is deemed inclusive if it enables all segments of the population to participate, particularly the poor. The degree of inclusiveness in growth depends on the interaction between growth, poverty, and inequality. Inequality is a particularly important dimension, because inequities in income or access to opportunities exclude households and individuals from the growth process. Inclusive growth is a multidimensional concept. It requires that all groups of people, particularly those who have been excluded or have been difficult to reach so far, take part in and benefit from the growth process. Inclusive growth is concerned not only with how economic growth reduces poverty but also how it reduces inequality and broadens economic opportunity. In contrast, pro-poor growth only deals with how effective growth is in reducing overall levels of poverty.<sup>3</sup>

4. It should be noted at the outset that in practice it is difficult to measure the contribution of any project to inclusive growth. Projects generate certain outputs, which are not automatically converted to outcomes. Since inclusive growth is about achieving specific outcomes, it is difficult to determine whether ADB's operations have led to inclusive growth. However, a well-designed and effectively executed project with a clear objective of benefiting lower-income groups can help achieve inclusive growth.

5. This study is structured as follows. Chapter 2 discusses the conceptual underpinnings of inclusive growth and how the region has fared in ensuring the inclusiveness of its growth process since 1990. Chapter 3 assesses ADB's strategic support for inclusive growth by examining its framework for inclusive growth, how it has evolved, and how it can be further improved. Chapters 4 and 5 evaluate ADB's operational support for inclusive growth. Chapter 4 assesses the progress made by ADB on implementing its inclusive growth agenda at the corporate level and examines the

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<sup>3</sup> Pro-poor growth mainly deals with the income dimension.

design of some projects deemed inclusive. Chapter 5 presents six country case studies that evaluate how ADB has helped promote inclusive growth at the country level. This chapter also provides some examples of successful projects that are likely to be inclusive.

## **A. Objectives of the Study**

6. The objectives of this thematic evaluation study are to (i) present a clearer understanding of the concept of inclusive growth and explore the relationships between growth, equity, and poverty; (ii) assess ADB's inclusive growth agenda in light of Strategy 2020 and in the context of its earlier strategies; (iii) assess ADB's support for inclusive growth in its developing member countries (DMCs) to identify lessons for future operations; and (iv) provide recommendations for future operations in inclusive growth.

7. The inclusive growth agenda adopted by ADB in 2008 was a broadly defined concept subject to several interpretations within the institution. Since then, ADB has attempted to refine its understanding of inclusive growth. By exploring the nexus between growth, poverty, and inequality in Asia and the Pacific, this study aims to strengthen that definition.

8. The study also assesses the progress ADB has made on operationalizing its inclusive growth framework in its DMCs and overall operations. It does this in part by trying to establish whether ADB operations have undergone significant changes since Strategy 2020 was adopted. An assessment of ADB's support for inclusive growth at the country and corporate levels provides further guidance in this area.

## **B. Scope of the Study**

9. The study analyzes the issues of

- (i) how ADB defines inclusive growth, how relevant this definition is to the region, and whether this relevance can be improved;
- (ii) how ADB reflects and operationalizes inclusive growth as outlined in Strategy 2020, as well as in other strategies it adopted since 2000, at the corporate and country levels;
- (iii) how well strategic priorities specified in country partnership strategies (CPSs) and associated documents comply with ADB's priorities;
- (iv) whether tangible changes can be discerned in terms of support for inclusive growth in ADB's pre- and post-Strategy 2020 interventions; and
- (v) how ADB can refine the definition and the operationalization of inclusive growth.

## **C. Methodology**

10. The study draws on (i) analysis of ADB documents, (ii) analysis of ADB's portfolio of operations during 2000–2012, (iii) country case studies commissioned for this evaluation study, (iv) cross-country analyses, and (v) interviews with resource persons.

11. The ADB materials reviewed for the study included strategy papers and strategy implementation documents, such as development effectiveness reviews, and country-level documents, including CPSs.
12. The study's portfolio analysis assesses whether there have been significant changes in ADB's operations during 2000–2012. Based on ADB's project classification system, projects approved in that period were categorized as aimed at growth (pillar 1), at access to opportunities (pillar 2), or at social protection (pillar 3).
13. Inclusive growth patterns were studied in the economies of Bangladesh, Mongolia, Papua New Guinea, the Philippines, Tajikistan, and Viet Nam. The ADB programs in these countries were analyzed and country visits made. The six countries were selected based on their geographical representation and on the broad representation they provide of the types of ADB lending. They include countries that borrow solely from the Asian Development Fund (ADF) or exclusively from ordinary capital resources, as well as DMCs that borrow from both.
14. The study also uses a cross-country analysis to understand how inclusive growth is being fostered in the region as a whole. It assesses the progress of 25 DMCs in achieving inclusive growth by using the World Bank's Povcal program and calculating indicators related to living standards, poverty, and inequality. These 25 DMCs accounted for almost 2.9 billion of the population of Asia and the Pacific in the 1990s and almost 3.4 billion in the 2000s. The study also uses household surveys from the selected DMCs to assess the access to and equity of opportunities in basic education and infrastructure services.
15. The study includes interviews conducted during evaluation missions with resource persons from government and nongovernment agencies, other development organizations, and ADB project teams.

## CHAPTER 2

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# Inclusive Growth: Issues and Trends

16. Inclusive growth has become a cornerstone of today's development policies and strategies but remains loosely defined and not fully operationalized. This chapter examines the concept's development, particularly the interaction and trade-offs between its various facets, including growth, poverty, and inequality. The chapter also explores how Asia and the Pacific has fared in promoting inclusive growth over the last two decades

### A. How the Concept of Development Evolved from Aggregate Growth to Inclusive Growth

17. Aggregate growth is no longer the primary objective and performance criterion in an economy's development. Instead, improvements in human welfare and living standards brought about by an inclusive pattern of growth have become the main measures of economic performance and the foremost goals of development policies.

18. Growth in gross national product became the focus of economic and development efforts and the prime economic performance indicator after World War II. Economic growth was expected to eliminate extreme poverty on its own. Later on a slowdown in poverty reduction caused by massive unemployment and underemployment in the 1960s made job creation a development objective in itself. The main objective of economic development was to improve the living standards of the poor by generating employment.

19. The 1980s saw important contributions to the conceptual analysis and measurement of well-being and poverty. Amartya Sen developed his capabilities and functioning theoretical framework,<sup>4</sup> and the Foster-Greer-Thorbecke decomposable poverty measures allowed income poverty to be measured while satisfying many important welfare axioms.<sup>5</sup>

20. By the late 1990s, however, the deterioration in socioeconomic conditions that accompanied the 1997–1998 Asian financial crisis had turned the development policy spotlight back onto poverty alleviation. Policymakers now sought to make improvements in the non-income dimensions of poverty. These include better outcomes in the areas of health and education. The financial crisis also forced a rethinking of the proper roles of the state and the market in promoting development.

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<sup>4</sup> A. Sen. 1985. Well-being, Agency, and Freedom: The Dewey Lectures 1984. *Journal of Philosophy*. (82). pp. 169–221.

<sup>5</sup> J. Foster, J. Greer, and E. Thorbecke. 1984. A Class of Decomposable Poverty Measures. *Econometrica*. (3). pp. 761–66.

Reexamined in particular was the part governments should play in protecting economies from external shocks by strengthening financial institutions and establishing social safety nets.

21. The concept of development has expanded in the new millennium to encompass a more comprehensive and multidimensional definition of human welfare. In addition to poverty reduction, an ultimate goal of development has become human development—a process that among other things comprises health, education, nutrition, shelter, access to information, the rule of law, and democracy. In 2000, the Millennium Development Goals (MDGs) were adopted by the international community to set ambitious quantitative targets in most of these areas to improve the overall welfare and environment of people in developing countries.

22. The consensus now is that growth alone is not enough to improve welfare, and that the pattern of growth matters, as well as its pace. Focusing on this pattern helped formulate the concepts of pro-poor growth and, more recently, inclusive growth. As discussed earlier, the two concepts differ. Inclusive growth is a broader concept than pro-poor growth.<sup>6</sup> Despite the general consensus, development agencies and organizations often disagree on the definition of inclusive growth, and their approach can differ considerably.<sup>7</sup> For instance, India's government Planning Commission describes inclusive growth as growth that alleviates poverty, generates jobs, promotes access to health and education services (particularly for the poor), fosters empowerment through education and skills development, recognizes women's rights, and ensures equality of opportunity, environmental sustainability, and good governance.<sup>8</sup> Other interpretations relate inclusive growth with equality of opportunity. The World Bank associates inclusive growth with the creation of an environment of equal opportunity through productive employment, functioning markets, and a platform for the poor to access better living conditions.<sup>9</sup> This definition highlights the intrinsic value and instrumental role of equality of opportunity in increasing growth potential.

23. To decide whether growth is truly inclusive, the three factors at play—growth, poverty, and inequality—need to be examined together. Appendix 1 provides an extensive analysis of a causal link from growth to poverty and inequality and a reverse causal link from poverty and inequality to growth, as well as the trade-offs in realizing the objectives of growth, poverty, and inequality.

## B. The Growth Pattern in Asia and the Pacific

24. Achieving growth does not automatically ensure that poverty and inequality will be alleviated. This section examines how inclusive the region's growth has been, basing its assessment on the four social objectives: (i) sustained growth that translates into improvements in living standards, (ii) reduction in poverty, (iii) reduction in inequality, and (iv) broadening access to economic opportunities.<sup>10</sup> These objectives basically reflect the three pillars of ADB's inclusive growth framework and the

<sup>6</sup> Pro-poor growth mainly deals with income dimension.

<sup>7</sup> The study describes various definitions of inclusive growth but does not extensively discuss the intricacies of such definitions.

<sup>8</sup> Government of India, Planning Commission. 2007. *Inclusive Growth: Vision and Strategy*. Delhi.

<sup>9</sup> World Bank. 2009. *What is Inclusive Growth?* Washington, DC.

<sup>10</sup> The World Bank's Povcal program was used to calculate all the indicators presented in this section. Household surveys from the 25 largest DMCs, which accounted for 2.87 billion people of Asia's population in the 1990s and 3.35 billion in the 2000s, have been used to measure the inclusiveness of growth. The data covered 171 growth spells, of which 64 were in the 1990s and the rest in the 2000s.

multifaceted nature of inclusive growth in terms of income- and non-income-based deprivations. To be able to foster inclusive growth, a country first needs to sustain growth in its economy. This increases the average standard of living through a rise in overall income or consumption. The inclusiveness of growth then depends on the extent to which poverty reduction accompanies growth. And growth that is inclusive should be broad-based, reaching as many groups in society as possible, particularly the poor and the vulnerable. They are often left out of growth's benefits, which only worsens inequality. Inclusive growth promotes a level playing field (i.e., equal distribution of opportunities). This requires paying attention to providing the poor and other frequently excluded groups with the chance to participate in, contribute to, and benefit from economic growth.

## B.1 Sustained Economic Growth and Living Standards

25. The main question that must be answered is: has the region's rapid and sustained macroeconomic growth since 1990 been translated into higher income and better average living standards as measured by household consumption?

26. In the 1990s, the GDP of Asia and the Pacific was \$5.5 trillion at 2005 purchasing power parity and grew at an annual rate of 9.0%. In the 2000s, it reached \$12.7 trillion, although the average annual increase slowed slightly to 8.2%. Some economies had even higher growth trajectories. Viet Nam maintained an annual growth rate of well above 7% in 2002–2008. During 2000–2010, growth in Bangladesh averaged more than 5% annually, driven by increased labor productivity from capital deepening and, to a smaller extent, higher total factor productivity. The Philippines, whose economy was often marked by boom–bust cycles before 2000, grew by an average 4.4% over the same period.

27. Combined with declining population growth, rapid aggregate output growth in Asia and the Pacific produced notable improvements in per capita GDP. The region's per capita GDP rose an average 7.8% a year in the 1990s and stood at \$1,917. It almost doubled to \$3,792 in the 2000s, although the average annual growth rate declined to 7.2%. Decelerating population growth—from an annual rate of 1.2% in the 1990s to 1.0% in the 2000s—played a part in the per capita advances.

28. This overall growth performance did not translate into similar levels of improvement in average living standards, however. Asia's household consumption increased at a slower pace than GDP. In the 1990s, it grew 5.7% annually and comprised 35.6% of the region's GDP. In the 2000s, it grew 5.5% annually and made up only 29.8% of the GDP in Asia and the Pacific. The remaining output, which grew as a percentage of the total during the 2000s, was made up of investments, non-household and government consumption, net exports over imports, and net overseas transfers.

29. The growth elasticity of consumption can be used to determine the extent to which economic growth translates into improvements in the average standard of living.<sup>11</sup> In the 1990s, the region's growth elasticity of consumption was 0.58, indicating that 1% growth in per capita GDP translated into growth in average living standards of only 0.58%. The elasticity increased to 0.63 in the 2000s, which indicated that while GDP growth during the latter period was lower than in the 1990s, this

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<sup>11</sup> The growth elasticity of consumption is the ratio of per capita consumption growth to per capita GDP growth. The growth rate of average per capita consumption directly impacts the current level of poverty.



growth was more effective in raising living standards. This suggests that a faster rate of growth does not necessarily raise the standard of living to the same extent. This means that the pace of overall growth should not be the sole focus when an economy's performance is examined. Growth patterns, particularly how well growth converts into improved living standards, must also play a crucial role in determining national policies and strategies.

## B.2 Poverty Reduction

30. How effectively economic growth reduces poverty is an important dimension of its inclusiveness of growth. Growth is expected to provide the means for people to generate income through employment or entrepreneurial activities, as well as benefits to support material consumption. It is therefore vital to determine how well growth can bolster poverty reduction. In this section, poverty rates are measured using both the \$1.25-a-day and \$2-a-day poverty lines based on 2005 purchasing power parity, with absolute poverty measured by the former and moderate poverty by the latter.<sup>12</sup>

31. Although the region's pattern of growth has been accompanied by impressive gains in poverty reduction, poverty remains a big unfinished development challenge. The number of absolute poor, or those living on \$1.25 or less a day, decreased from 1.23 billion in the 1990s to 790 million in the 2000s (Table 1). Some countries played an especially significant part in this reduction, particularly the People's Republic of China (PRC), where the number of absolute poor declined from 520 million people (42.9% of the population) in the 1990s to 230 million (17.3%) in the 2000s. Other DMCs continued to grapple with high poverty levels and slower reductions. For instance, more than two-fifths of the people in Bangladesh remain mired in absolute poverty.

**Table 1: Average Poverty Estimates, 1990s and 2000s**

Item	1990s	2000s
<b>\$1.25-a-day poverty line</b>		
Absolute poor (%)	42.96	23.50
Number of absolute poor (billion)	1.23	0.79
<b>\$2-a-day poverty line</b>		
Poor (%)	69.66	48.27
Number of poor (billion)	2.00	1.62

Source: Independent Evaluation Department staff estimates based on the latest Povcal database.

32. The average annual declines in the numbers of absolute poor in the region were 7.4% in the 1990s and 11.2% in the first decade of the 2000s. The annual rate of decline from 1990 to 2010 was 8.8% (Table 2). If this trend continues until 2020, the absolute poverty rate in Asia and the Pacific should decline from 23.5% in the first decade of the 2000s to 9.4% in the second.

33. The rate of moderate poverty, based on the \$2-a-day poverty line, has been less impressive. Moderate poverty declined 4.1% annually in the 1990s and 8.4% in the 2000s. This suggests the pattern of growth in the region benefits the absolute poor more than the moderate poor. This may be a result of how growth has been distributed between various sectors of an economy.

<sup>12</sup> In some literature, the \$1.25-a-day poverty line is considered a measure of extreme poverty, and \$2-a-day a measure of moderate poverty.

**Table 2: Annual Poverty Reduction Rates, 1990s and 2000s**  
(%)

	1990s	2000s
<b>\$1.25-a-day poverty line</b>		
Percentage of absolute poor	(7.36)	(11.24)
Number of absolute poor	(6.16)	(10.27)
Poverty gap absolute poor	(8.71)	(12.40)
Severity of absolute poverty	(9.40)	(12.65)
<b>\$2-a-day poverty line</b>		
Percentage of poor	(4.11)	(8.36)
Number of poor	(2.91)	(7.39)
Poverty gap poor	(6.28)	(10.29)
Severity of poverty	(7.47)	(11.22)

( ) = negative.

Source: Independent Evaluation Department staff estimates based on the latest Povcal database.

34. Growth in Asia and the Pacific became remarkably more effective at reducing absolute poverty during the first decade of this century, going by estimates of the growth elasticity of poverty, which measures the percent reduction in poverty for every 1% growth in GDP (Table 3).<sup>13</sup> In the 1990s, the average elasticity of poverty was -0.8%, which meant that 1% growth in GDP reduced the percentage of absolute poor by 0.8%. The -1.4% estimated for the first decade of the 2000s means that each 1% of GDP growth lowered absolute poverty by 1.4%. This was mainly due to two factors—lower population growth and higher growth elasticity of consumption. The latter shows the extent to which economic growth translates into improvements in living standards.

**Table 3: Effectiveness of Economic Growth in Reducing Poverty, 1990s and 2000s**  
(%)

	1990s	2000s
<b>\$1.25-a-day poverty line</b>		
Percentage of absolute poor	(0.82)	(1.37)
Number of absolute poor	(0.68)	(1.25)
Poverty gap absolute poor	(0.96)	(1.51)
Severity of absolute poverty	(1.04)	(1.54)
<b>\$2-a-day poverty line</b>		
Percentage of poor	(0.46)	(1.02)
Number of poor	(0.32)	(0.90)
Poverty gap poor	(0.70)	(1.26)
Severity of poverty	(0.83)	(1.37)

( ) = negative.

Source: Independent Evaluation Department staff estimates based on the latest Povcal database.

35. The study has revealed that the region's growth has been effective in lifting people out of poverty, but its effectiveness diminishes when the impact of growth on increasing the incomes of those unable to cross the poverty line is considered. For the poverty gap ratio of the absolute poor, the growth elasticity of poverty was -1.5%, implying that 1% growth in GDP reduces the poverty gap ratio by 1.5%, of which -1.4% is accounted for by the percentage of absolute poor lifted out of poverty and -0.1% by the narrowing income gap of those unable to cross the poverty line. Since growth alone is not sufficient to lift the incomes of those unable to cross the poverty line, providing safety nets for the extremely poor is essential.

<sup>13</sup> The growth elasticity of poverty is defined as the ratio of the rate of poverty reduction to the growth rate of GDP.

36. An economy’s performance in reducing poverty is influenced by several factors. Appendix 2 shows the relative effects of four of these factors: GDP growth, population growth, the growth elasticity of consumption, and the inequality effect.

37. GDP growth generates additional outputs for material consumption. Population growth lowers the effect economic growth has on poverty—a larger population reduces the share of overall output enjoyed by each individual. The growth elasticity of consumption determines the extent to which growth translates into improvements in living standards, as measured by consumption. The inequality effect shows how benefits of growth are distributed between those who are poor and those who are not.<sup>14</sup>

38. The four factors identified in explaining the impact of growth on poverty reduction vary across countries. No one-size-fits-all approach to reducing poverty exists. Policies need to be based on quantitative and qualitative analysis of the particular socioeconomic conditions in each economy. This kind of rigorous analysis is critical at the country level, particularly in preparing documents such as country partnership strategies (CPSs).

### B.3 Inequality in Income Distribution

39. Enabling all population groups to participate in the growth process should be at the heart of inclusive growth efforts. Inclusive growth is growth that is effective in reducing both income and non-income inequality. Three measures of income inequality are examined: the Gini index,<sup>15</sup> Atkinson’s inequality index,<sup>16</sup> and the quintile index.<sup>17</sup> The growth rates of inequality by these measures are calculated based on trend regression models accounting for fixed country and time effects.

40. As the region’s economy has grown since 1990, so has inequality. This contrasts with 1960s and 1970s, when economic expansion in Asia and the Pacific was generally marked by equitable distribution of income.<sup>18</sup> The rapid growth during 1990–2010 has instead been accompanied by rising inequality. The estimated rates of the growth in this inequality are all statistically significant at the 5% level of significance according to all three measures (Table 4). For instance, the Gini index increased at an annual rate of 1.04% in the 1990s and 2000s.

**Table 4: Annual Change in Inequality, Weighted by Population, 1990–2010 (%)**

Asia and the Pacific	
Gini index	1.04*
Atkinson index	1.84*
Quintile index	0.62*

Note: \* indicates that the increase or decrease in inequality is significant at the 5% level of significance.  
Source: Independent Evaluation Department staff estimates based on the latest Povcal database.

<sup>14</sup> Growth is defined as pro-poor (or anti-poor) if the inequality effect reduces (or increases) poverty. Growth is distribution-neutral if the inequality effect is 0.

<sup>15</sup> The Gini index is sensitive to income transfers at the mode of distribution, making it more suited for measuring inequality if the middle-income class is the group of interest.

<sup>16</sup> Atkinson’s index is sensitive to income transfers at the bottom of the income distribution, making it more appropriate if a society is concerned with people at the bottom of the distribution.

<sup>17</sup> The quintile measure is defined as the ratio of mean consumption of the bottom 20% to the mean consumption of the population. If the share of the poorest quintile increases (decreases), this inequality measure decreases (increases).

<sup>18</sup> ADB. 2012. *Asian Development Outlook 2012*. Manila.

41. The rates of change have varied between countries, and inequality has actually diminished in some. The Philippines reduced its Gini index from 46.09 in 2000 to 42.98 in 2009, although inequality remains high. Viet Nam's Gini index also declined, from 37.55 in 2002 to 35.75 in 2008. On the other hand, Gini coefficients have risen in the region's most populous countries, including the PRC, India, and Indonesia, particularly in the 2000s.

42. Trends in the disparities between urban and rural areas help explain the nature and patterns of inequality in Asia and the Pacific. In the PRC, the urban–rural divide accounts for about 45% of the country's overall income inequality. From 1990 to 2008, urban inequality increased from a Gini coefficient of 25.6 to 35.2, and rural inequality increased from 30.6 to 39.4. The high urban–rural inequality in the country reflects the PRC's dual economic structure of modern manufacturing and services in urban areas and traditional agriculture in the countryside. This inequality has been aggravated by a residency registration system that prevents many potential migrants from moving to urban centers (footnote 18). As in most developing countries, though not the PRC, urban inequality in India is greater than rural inequality. India's urban Gini coefficient increased from 34.4 in 1993 to 39.3 in 2010, while its rural Gini increased from 28.6 to 30.0 in the same period. The growing income inequality in India has thus been mainly an urban phenomenon, driven by higher earnings in skill-intensive occupations.

43. Urban inequality in Bangladesh has also been consistently higher than rural inequality. The rural income Gini coefficient increased from 25.0 in 1991 to 27.5 in 2010, while urban coefficient rose from 39.8 to 45.2. The rural increase results from an influx of remittances from migrant workers overseas, which has greatly benefited some households but not others, and by growing disparities in income from self-employment in the nonfarm sector.<sup>19</sup>

## B.4 Broadening Access to Economic Opportunities

44. Inclusive growth efforts are just as concerned about reducing non-income disparities as they are about addressing unequal income distribution. Such non-income dimensions of well-being as good health and educational attainment are largely shaped by the degree of equality in the distribution of economic opportunities. To engage effectively in economic activities, people first need to have the chance to do so. These opportunities need to be expanded and to be available to all for fully inclusive growth to occur, and examining the extent to which this occurs is imperative in an assessment of the inclusiveness of growth.

45. In Asia and the Pacific, the rising income inequality in the last two decades has been matched by disparities in access to economic opportunities. The inequity in education, employment, and the access to basic health and infrastructure services poses a major challenge for the region's inclusive growth.

### Education

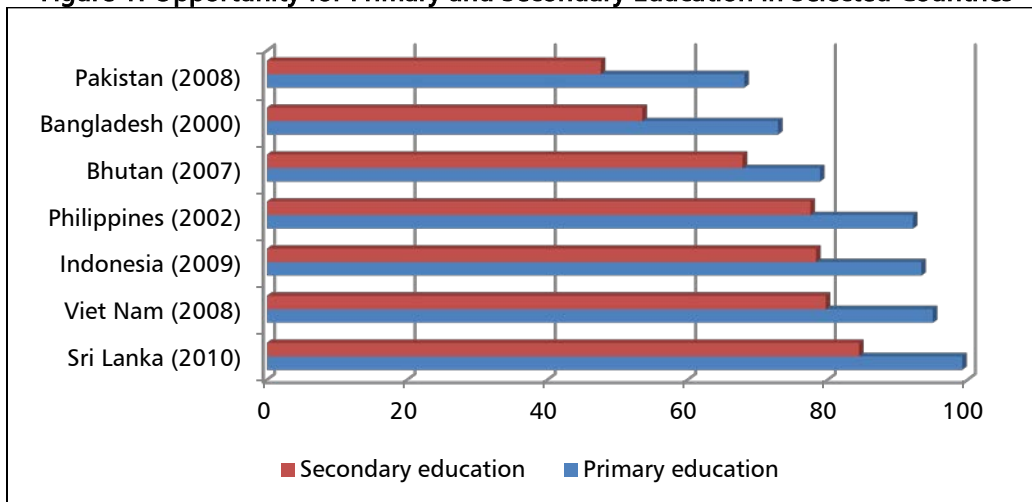
46. The region has done better at providing primary schooling than secondary education. Most countries have now achieved 95% primary net school enrolment. Of the 40 countries for which data is available, only 14 have not yet reached this level.

<sup>19</sup> S.R. Osmani and B. Sen. 2011. Inequality in Rural Bangladesh in the 2000s: Trends and Causes. *Bangladesh Development Studies*. XXXIV (4). pp. 1–36.

Papua New Guinea, Pakistan, and Nepal, which have primary school enrolment rates of around 75%, are among them. By contrast, India and Indonesia have achieved primary enrolment rates of 99%.<sup>20</sup> On the other hand, 10 of the 24 countries with data available had secondary net school enrolment rates below 70%. The rates in some, including Pakistan (35%) and Timor-Leste (39%), were much lower. Countries with markedly higher rates included Brunei Darussalam, Kazakhstan (90%), the Republic of Korea (96%), and Sri Lanka (88%).<sup>21</sup>

47. The study also found that equitably ensuring that children attend secondary school is a now greater challenge for the region than providing primary school education (Figure 1). This is not unexpected given the higher opportunity costs of sending children to secondary school. Performance varies widely between countries. In Sri Lanka, 99.3% of primary education services are available and equitably allocated, but only 84.9% of secondary education services are. The comparable figures in Pakistan are 68.1% and 47.6%, respectively.<sup>22</sup> These findings provide an important message for those planning social programs, including conditional cash transfers—if the goal is to maximize the increase in enrollment, incentives such as cash transfers may be more effective when they target older children at the secondary level than those of primary school age.

**Figure 1: Opportunity for Primary and Secondary Education in Selected Countries**



Note: The x axis presents the proportion of school-age-children with access to primary or secondary education.

Source: Independent Evaluation Department staff estimates based on household surveys.

48. Efforts to further improve access to and the quality of education services in Asia and the Pacific would benefit from increased public investment. In 2010, education spending was less than 4.0% of GDP in 15 of the 33 countries for which comparable data was available. The 15 included the PRC, India, Indonesia, Pakistan, and the Philippines. By comparison, spending by member countries of the Organisation for Economic Co-operation and Development averaged 5.2% of GDP (footnote 18). Funding for conditional cash transfers and other forms of subsidies, as well as for

<sup>20</sup> ADB. 2013. *Key Indicators for Asia and the Pacific*. Manila.

<sup>21</sup> World Bank. *World Development Indicators Online Database*. <http://data.worldbank.org/data-catalog/world-development-indicators> (accessed 9 September 2013).

<sup>22</sup> H. Son. 2013. Inequality of Human Development Opportunities in Asia. *Asian Development Review*. Manila: ADB.

building classrooms and procuring teaching material, should be scaled up. These interventions must be properly targeted, however, to optimize their impact.

### *Health*

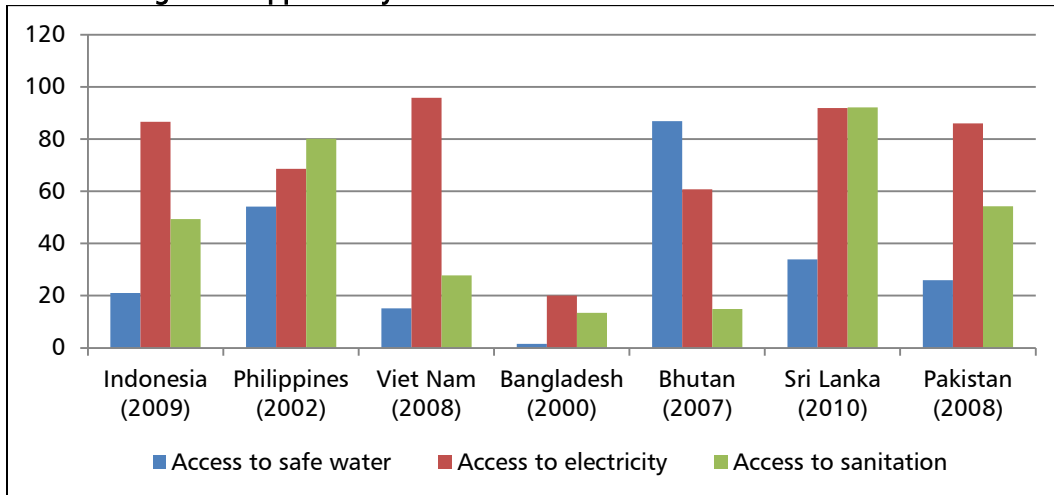
49. Health outcomes in Asia and the Pacific have lagged behind improvements in education. For instance, while broad progress in reducing the under-5 mortality rate is being made across the subregions, it is uneven between countries. During 1990–2011, the under-5 mortality rate was more than halved in Southeast Asia and East Asia and almost halved in the Pacific, South Asia, and Central and West Asia. The highest under-5 mortality rates in 2011 were recorded in Afghanistan (101 per 1,000 live births), Pakistan (72), Tajikistan (63), Myanmar (62), and India (61). It should be stressed, however, that these countries had already achieved 40% reductions on this indicator during 1990–2011. All the same, 29 of the 43 countries in Asia and the Pacific with available data are expected to miss their MDG target of reducing their 1990 infant mortality rates by two-thirds by 2015 (footnote 20).

50. The region has outperformed the world average in reducing the maternal mortality ratio, which declined from 388 deaths per 100,000 live births in 1990 to 149 in 2010. The world average in 2010 was 210. Despite this, 28 of the 38 countries with available data in 1990–2010 are not expected to reach the MDG target of reducing their maternal mortality ratio by 75% by 2015. Even so, some countries have made great progress. The PRC's ratio declined from a baseline of 120 deaths per 100,000 live births in 1990 to 37 in 2010. Bangladesh, India, Indonesia, and Pakistan have also achieved very considerable reductions—their ratios are now below the 200–260 range—but they need to make further progress (footnote 20).

51. Inequities in health within a nation's population are influenced by several factors, but low government spending is key because it has a large impact on the provision of basic health services. As they do in education, governments need to scale up their spending on health. In 20 of the 41 countries in the region with comparable data in 2009, this spending amounted to less than 5% of GDP. Underspending occurred in most countries in East Asia, South Asia, and Southeast Asia. By comparison, health spending among member countries of the Organisation for Economic Co-operation and Development averaged 9.4% of often much larger GDPs in 2009. Properly targeted investments in health can increase access to and improve the equity of the distribution of health services. Demand-side interventions, such as conditional cash transfers, can be particularly effective in helping to ensure that households are able to utilize health services.

### *Basic Infrastructure*

52. The region's underperformance in health outcomes is partly explained by disparities in access to basic infrastructure. Many countries have made good progress on providing their people with potable water, but the provision of sanitation services has generally been sluggish across the region. Of 42 economies with available data in 2011 or the nearest year, 25 are expected to miss the 2015 MDG target of halving the proportion of their populations without access to improved sanitation facilities as of 1990. The better news is that 25 economies are expected to halve the proportion of their populations lacking sustainable access to safe drinking water over the same period (footnote 20). Electrification is also an important basic infrastructure service—only 62.4% of South Asia's population had access to electricity in 2010, compared with 90.6% in East Asia and the Pacific (footnote 21).

**Figure 2: Opportunity for Basic Infrastructure in Selected Countries**

Note. The y axis presents the proportion of households with access to basic infrastructure services.  
Source: Independent Evaluation Department staff estimates based on household surveys.

53. Providing people access to basic infrastructure remains a major challenge for many countries in the region, as Figure 2 shows. The reasons for the lack of services include the difficulties of providing infrastructure in some terrain and in remote locations, and, in some countries, the public's aversion to paying for basic services freely available. Access to potable water services ranges from as high as 86.9% in Bhutan to as low as 1.6% in Bangladesh. In Viet Nam, 95.8% of the people have access to electricity, compared with 20.1% in Bangladesh. More than 92% of Sri Lanka's people have access to sanitation services, while in Bhutan only 15% do.<sup>23</sup> Bangladesh has one of the region's most unequal distribution of opportunities overall in basic infrastructure services.

### Employment

54. Access to basic social services is largely influenced by household's capacity to generate income, which, in turn, determines their ability to pay for these services. Since employment is the usual way households and individuals generate income, the study found it useful to look at how the region has fared in providing people access to job opportunities.

55. Broadly, job generation declined across subregions during 1991-2011, but it varied between countries. The employment-to-population ratio, based on the number of jobs per the number of people aged 15 and above, is an indication of an economy's ability to provide jobs. In South Asia, it decreased from 59% in 1991 to 55% in 2011. Over the same period, it declined from 73% to 70% in East Asia and the Pacific and from 55% to 51% in Europe and Central Asia (footnote 21). The ratio increased in 16 of the region's countries and declined in 10 of its developing countries, including Bangladesh and India (footnote 20).

56. Jobless growth is a particularly noticeable phenomenon in the Philippines. Average annual GDP growth of 4.5% from 2003 to 2009 failed to improve the average employment opportunities available to the population. The measure actually declined

<sup>23</sup> H. Son. 2013. Inequality of Human Development Opportunities in Asia. *Asian Development Review*. Manila: ADB.

during 2006–2009 from 58.4% to 57.8%. This jobless growth has continued. GDP grew at an annual rate of 7.8% in the first quarter of 2013, but the unemployment rate had increased to 7.3% by July 2013 from 7.0% in the same month of the previous year. The main challenge facing the Philippines is revival of its manufacturing sector, which has the potential to generate massive employment due to its highest backward and forward links with the economy's other production sectors. The services sector has been the main engine of growth. Industry's share in Philippine GDP has been declining since the 1980s and dropped to only 32% in 2007. Growth in business process outsourcing, financial intermediation, and manufacturing subsectors in the country has not generated employment for people with low levels of education and skills. Agricultural workers who move into the services sector often end up in informal, low-productivity jobs.

57. In contrast to the Philippines, countries that have successfully undergone structural transformations invested heavily in agriculture and infrastructure. They include Japan and the Republic of Korea. Doing this at the start of the growth process helped increase the incomes of their farmers. The creation of agricultural surpluses that resulted provided funds for developing a labor-intensive manufacturing sector. Simultaneous investments in infrastructure helped reduce transactions costs, create jobs, improve connectivity to markets, and boost access to social services.

58. The quality of employment generated and basic social services needed to provide all of the population with the human capital and the good health they require are equally important in ensuring that growth will be inclusive. Education systems must equip students with the skills and knowledge that can improve their productivity and employment prospects and thus enable them to participate in the growth process. Support for technical and vocational education is particularly important to the development of skills that are relevant to the needs of the labor market. Health services should be good enough to address the health problems that hinder people from engaging in economic activities.

59. Job opportunities need to offer adequate wages and working arrangements that maximize the productivity of individuals and, as a result, their ability to generate income. Employment that has no formal work arrangements remains a widespread and important problem in Asia and the Pacific. The vulnerable workers in these jobs currently account for more than 40% of all employees in 18 countries in the region. In Bangladesh and India, the proportion is more than 80% (footnote 20).



# Strategic Support for Inclusive Growth

60. In pursuit of its agenda of inclusive growth, ADB has calibrated the shift of its strategic development priorities, based on its operational strengths and the region's changing development needs. The inclusive growth agenda evolved from a very narrow focus on income poverty to a broader approach encompassing growth and social equity. This chapter explores the evolution of ADB's inclusive growth agenda and assesses the relevance of its definition of inclusive growth to the current economic challenges and opportunities in Asia and the Pacific. It also recommends ways to improve the agenda.

### A. How ADB's Inclusive Growth Agenda Evolved

61. ADB took a decisive step toward a wider range of social objectives by adopting the Poverty Reduction Strategy (PRS) in 1999.<sup>24</sup> This made poverty reduction ADB's overarching goal, rather than one among several objectives, as had been the case under earlier strategies.<sup>25</sup> Recognizing poverty's many dimensions, the PRS saw it not only as income deprivation but also as a lack of productive employment and human development.

62. The PRS was built on three pillars: pro-poor sustainable economic growth, social development, and good governance. It identified good governance, private sector development, gender equality, and environmental sustainability as crosscutting priorities. In addition to infrastructure and finance, it included agriculture and rural development and the social sectors as priority sectors.

63. These pillars broadly resembled the current thrust of ADB's inclusive growth agenda. In particular, the PRS advocated labor-intensive growth to expedite poverty reduction. This approach highlighted the essential role of infrastructure development in fostering such growth and encouraged private sector participation.

64. The PRS and Strategy 2020 also agree on the major areas of social development. The PRS acknowledged that, if poverty is to be reduced, economic growth needs to be accompanied by a comprehensive program for social development. To provide this, it emphasized human capital development through the provision of basic social services. The poor were to be particularly targeted to help improve their economic status and participation in society. The PRS also emphasized gender and social protection, which are cornerstones of Strategy 2020.

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<sup>24</sup> ADB. 1999. *Poverty Reduction Strategy*. Manila.

<sup>25</sup> 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.

65. While the PRS recognized the multidimensional nature of poverty at the strategic level, ADB focused more narrowly in operations under the strategy on reducing income poverty and set targets for the corporate portfolio to support what it described as poverty interventions. Operationally, then, the PRS differed significantly from Strategy 2020's inclusive growth agenda.

66. In practice, the PRS measured poverty by the adequacy of consumption of food and other essentials, thereby focusing on income poverty and on reducing poverty headcount ratios. It defined activities as poverty interventions based on the extent of income poverty affecting beneficiary groups.<sup>26</sup> While the PRS recognized that pro-poor growth interventions would remain important, it specified that at least 40% of ADB's operations should focus on poverty interventions.

67. To implement the PRS, ADB in 2001 adopted its first long-term strategic framework, which was to cover 2000–2015.<sup>27</sup> The framework aligned its definition of poverty with the International Development Goals—the precursor to the MDGs—to help ADB achieve them in Asia and the Pacific. It largely mirrored the PRS approach, with poverty reduction remaining the primary objective of all of ADB's operations. Defining poverty as a multidimensional concept, the framework covered sustainable economic growth, inclusive social development, and governance for effective policies and institutions.

68. In 2004, ADB reviewed the relevance of the PRS to the region's changing needs. This resulted in the Enhanced PRS, which expanded the original's narrow focus on income poverty.<sup>28</sup> The adoption of the MDGs encouraged ADB to further refine its definition of poverty in a more holistic fashion. The impact of the PRS on poverty reduction at the regional level was then assessed through the achievement of MDGs.

69. The Enhanced PRS added capacity development to its thematic priorities, alongside the three pillars of PRS. It also reclassified projects as general interventions and targeted interventions from those supporting pro-poor growth and poverty interventions. Targeted interventions encompassed income poverty interventions as well as projects supporting the non-income MDGs and those undertaken in areas with a high concentration of poverty.

70. The Enhanced PRS also shifted the burden of poverty reduction from individual projects, as had been the approach in previous strategy, onto ADB's country programs. By aligning ADB's operations with a country's own poverty reduction strategy, these operations would be guided by a country's specific priorities and not those set by ADB. This led to an ADB-wide abandonment of the sector priorities for poverty reduction introduced in the PRS.

71. Country-specific priorities also affected the monitoring and evaluation of outcomes. Instead of assessing the impact of individual projects based on ADB's institutional targets for poverty reduction, the Enhanced PRS focused on the combined impact of a country program on poverty reduction. The enhanced strategy used the

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<sup>26</sup> Poverty interventions were defined as projects in which “the proportion of poor people among project beneficiaries (are) significantly larger than their proportion in the overall population of the country, and in no case less than 20 percent.” It was also stated that, for classifying poverty interventions, national and rural poverty lines would be defined. For core poverty interventions, a subset of poverty interventions, a majority of the beneficiaries were to be below the poverty line.

<sup>27</sup> ADB. 2001. *Moving the Poverty Reduction Agenda Forward in Asia and the Pacific*. Manila.

<sup>28</sup> ADB. 2004. *Enhancing the Fight against Poverty in Asia and the Pacific*. Manila.

country strategy and partnership results framework, which established the link between the country outcomes necessary for poverty reduction and ADB interventions, to assess the success these interventions had together on achieving these outcomes.<sup>29</sup>

72. The composition of ADB's portfolio based on the three pillars of the PRS changed after 2004. From the adoption of the Enhanced PRS in 2004 to Strategy 2020's adoption in 2008, ADB's inclusive interventions, as defined either by targeted interventions or pillars 2 (broadening access to opportunities) and 3 (social safety nets), were significantly deemphasized. The importance given to projects under pillar 1 (high and sustained economic growth) increased under Strategy 2020, probably induced by the focus on infrastructure as a core operational area. This trend is also evident in the trend of targeted interventions after 2004 (See Chapter 4).

73. Strategy 2020 was a further revision of ADB's long-term strategic framework, designed in part to recognize the 21st century challenges and opportunities emerging in Asia and the Pacific. Strategy 2020 maintains poverty reduction as its principal development objective. To pursue its vision of a region free of poverty and carry out ADB's mission to reduce poverty and improve living conditions and quality of life, Strategy 2020 focuses on three distinct but complementary agendas: inclusive growth, environmentally sustainable growth, and regional integration.

74. Strategy 2020 does not regard inclusive growth as a new development objective. Rather, poverty reduction remains ADB's overarching objective, and inclusive growth is deemed an essential ADB strategy for achieving it. By declaring poverty reduction the overarching goal of inclusive growth, ADB implicitly regards other social objectives, such as *inequality* reduction, as either instruments of poverty reduction or coterminous with it. However, reducing inequality has intrinsic value—and is not just as an instrument of poverty reduction. Moreover, poverty and inequality may not always move in the same direction, and there may be a trade-off between the two.<sup>30</sup>

75. The introduction of the concept of inclusive growth does not appear to have fundamentally changed ADB's strategic priorities since the PRS period. As discussed in the next section, Strategy 2020 states that ADB will pursue inclusive growth through two mutually reinforcing strategic focuses: (i) high, sustainable growth that creates and expands economic opportunities; and (ii) broader access to these opportunities to ensure that all members of society can participate in and benefit from growth. The focus on high, sustainable growth corresponds with the pillar on sustainable economic growth of the long-term strategic framework adopted in 2001. Likewise, broader access to opportunities is similar to the framework's inclusive social development pillar.

76. ADB adopted a corporate results framework to implement Strategy 2020. It introduced indicators for monitoring results at the level of goals, outputs, and inputs. The framework tracks the results chain of operations to assess the institution's success in implementing Strategy 2020 through an annual development effectiveness review. This provides a logical completeness to Strategy 2020 by identifying a definite set of regional targets that can be monitored.

77. Nonetheless, major questions remain regarding the implementation of the inclusive growth agenda, and the results framework has been unable to address them. A challenge seemed to have emerged among ADB staff after Strategy 2020 was

<sup>29</sup> The current CPS results framework tracks sector outcomes but not poverty reduction outcomes.

<sup>30</sup> Other things remaining constant, a reduction in inequality does not necessarily lead to a reduction in poverty.

adopted over how to interpret its very broad definition of inclusive growth.<sup>31</sup> The original results framework, which was to cover 2008–2012, defined no objective measures and indicators that shed more light on the subject. This became a serious issue when the initial framework expired and new indicators and targets were under consideration and had to be set. A new framework approved in January 2013 included an inclusive growth operations indicator that had three subindicators with baseline numbers but no targets. It was in March 2013—when ADB issued staff guidelines on inclusive economic growth in the country partnership strategy—that more clarity was given to staff on how to interpret ADB's definition of inclusive growth and how to implement it. The guidelines seek to (i) operationalize inclusive growth in CPSs to bolster inclusive growth efforts, and (ii) tag individual projects depending on their contribution to inclusive growth.

## **B. ADB's Definition of Inclusive Growth**

78. Strategy 2020 provides no explicit definition of inclusive growth. Instead, it presents three pillars of inclusive growth: (i) high, sustainable growth that creates and expands economic opportunities; (ii) broader access to these opportunities to ensure that all segments of the population can participate in and benefit from economic growth by improving human capacities through investments in education, health, and basic social protection, as well as enhancing the poor's access to markets and productive assets; and (iii) social safety nets to prevent extreme deprivation.

79. Strategy 2020 restored the original PRS institutional level specification of priority sectors that had been abandoned under the Enhanced PRS of 2004. ADB aims to channel 80% of its operations to core operational areas—infrastructure, environment (including climate change), regional cooperation and integration, finance sector development, and education. These may reflect ADB's comparative strengths and address the region's changing needs. ADB, however, aims to also operate on a limited scale in the areas of agriculture, health, and disaster and emergency assistance.

80. By defining core and noncore areas of operations, Strategy 2020 indicates how ADB is to foster inclusive growth. For instance, infrastructure investments, which comprised 72% of operations from 2008 to 2012, are seen as fundamental to achieving poverty reduction and inclusive growth. However, infrastructure interventions are not automatically assumed to promote inclusive growth, and different types have varying impacts on inclusive growth. Rural electrification, rural roads, irrigation, water management, and other rural infrastructure projects by and large are likely to impact inclusive growth outcomes since poverty is often most prevalent in rural areas. In addition, maximizing the impact of infrastructure investments on inclusive growth requires complementary interventions and a clear goal to benefit low-income groups.

81. Other infrastructure areas highlighted in Strategy 2020 are water, sanitation, and waste management systems to support public health; urban infrastructure that focuses on the delivery of basic services; and rehabilitation and reconstruction assistance in post-disaster and post-conflict situations. These projects are more likely to be inclusive, but their potential to benefit lower-income groups and achieve inclusive outcomes must be carefully assessed.

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<sup>31</sup> This statement is based on the study team's interviews with more than 60 ADB staff working in the headquarters or resident missions in countries selected for case studies (Bangladesh, Mongolia, Papua New Guinea, the Philippines, Tajikistan, and Viet Nam).

82. Other core areas such as finance sector development highlight the need for creating an enabling environment for microfinance, rural finance institutions, and small- and medium-sized enterprises, as well as the expansion of formal financial system services to rural areas to promote inclusion. Again, the mere creation of rural financial institutions or even microfinance has potential but does not guarantee inclusive outcomes.<sup>32</sup> Such projects should be designed to generate real opportunities for lower-income groups.

83. Similarly, providing education and vocational training can help improve the employment prospects of individuals. The impact of such interventions on inclusive growth hinges on equitable access to education and vocational training, particularly by lower-income vulnerable groups.

84. In contrast to the high priority accorded to the agriculture and social sectors under the PRS, Strategy 2020 categorizes agriculture and rural development, and health as noncore areas. Even so, ADB still helps promote inclusive growth through investments in noncore areas. To achieve health outcomes, ADB mainly employs infrastructure interventions (e.g., water supply and sanitation services) and public expenditure management for cost-effective delivery of health programs and services to all population groups. This indirectly impacts health systems. Other smaller interventions are targeted more directly—e.g., mitigation and control of communicable diseases, particularly HIV/AIDS.

85. Infrastructure investments for rural transport, irrigation and water systems, and microfinance, as well as support for natural resources management, are core areas indirectly supporting agriculture and rural development. Given the emerging challenge of food security in the region, more direct interventions could be better suited to addressing this issue. Direct interventions refer to programs that directly target individuals or households, such as safety nets. Infrastructure projects generally tackle supply-side bottlenecks in food insecurity in the long run. However, food insecurity often arises from demand-side constraints when purchasing power is eroded. Food price crises therefore call for immediate interventions to mitigate demand-side constraints, ensuring people have purchasing power to buy food.

86. ADB issued the March 2013 staff guidelines to further clarify its support for inclusive growth. These interpret the description of inclusive growth by identifying three requirements or interconnected pillars for achieving this development goal. The guidelines make clear that focusing on a single pillar will not deliver inclusive growth, but achieving progress on all three is needed to make growth inclusive. However, depending on country-specific circumstances, this study stresses that the relative emphasis on the three may vary across countries.

### C. ADB's Inclusive Growth Framework and Recommended Improvements

87. Going beyond the income-based dimensions of welfare, ADB has adopted a fairly broad characterization of inclusive growth under Strategy 2020. It embraces the non-income dimensions of welfare necessary for creating and expanding access to economic opportunities, as well as the provision of safety nets for those unable to access these opportunities. This section assesses the relevance of ADB's inclusive

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<sup>32</sup> ADB. 2007. *Effect of Microfinance Operations on Poor Rural Households and the Status of Women*. Manila.

growth framework to economic opportunities and challenges in Asia and the Pacific, and proposes ways to improve it.

- ❖ **Under Strategy 2020, ADB's stated strategic focus shifted from pro-poor growth to inclusive growth. The crucial question is whether, in practice, the shift would be to inclusive growth. Inclusive growth, which involves all segments of the population, including the poor, is seen as a means of achieving ADB's overarching objective of poverty reduction. A shift to inclusive growth entails considerations for inequality, as well as income and non-income dimensions of poverty.**

88. Strategy 2020 represents a shift from the concept of pro-poor economic growth, on which the PRS and the Enhanced PRS were founded, to an inclusive growth agenda. While all these strategies make poverty reduction ADB's overarching objective, the inclusive growth agenda appears to move away from fostering pro-poor economic growth, focusing only on the poor, to growth that covers all segments of the population, including the poor.

89. Strategy 2020 was crafted during a rebounding of the region's economy. Average annual GDP growth was 6% from 1999 to 2006. Poverty had fallen across the region and the middle class had expanded. Indeed, it was projected that 66% of the global middle class would be living in the region by 2030.<sup>33</sup> Yet, the region was also facing new economic challenges, such as widening income and non-income inequality and inadequate job creation for its growing labor force. Ending poverty remained a major challenge and the region's "most important piece of unfinished business," as Strategy 2020 put it. Considering these circumstances, making inclusive growth a key development agenda in the strategy seemed appropriate.

90. Poverty reduction has slowed in Asia and the Pacific since Strategy 2020 was developed, a victim of food price shocks and the outbreak and aftermath of the 2008–2009 global financial and economic crisis that surged a few months after the strategy was adopted. This demands a reexamination of the continued validity of the assumption of high growth and falling poverty levels upon which the strategy was partly based. An additional 112 million people in Asia could have been lifted out of poverty annually in the late 2000s had there not been a food-price crisis.<sup>34</sup> Similarly, the World Bank estimates that 20 million people may have fallen back into poverty given the percentage point reduction in growth following the global financial crisis.<sup>35</sup> More recently, the 2014 tapering of monetary quantitative easing measures in the United States has added to the region's economic uncertainties.

91. In addition, while growth in the region may have helped significantly reduce income poverty, it has not helped as much in the alleviation of other dimensions of poverty, such as hunger, malnutrition, and poor access to quality education. The region's very large burden of deprivation, the slowing of income poverty reduction, and sluggish progress on addressing non-income dimensions of poverty all call for greater focus on poverty reduction, which is pivotal if ADB's vision of a region free of poverty is to be achieved.

<sup>33</sup> H. Kharas. 2010. The Emerging Middle Class in Developing Countries. *Development Centre Working Papers*. No. 295. Paris: OECD Publishing.

<sup>34</sup> ADB. 2012. *Food Security and Poverty in the Asia and the Pacific: Key Challenges and Policy Issues*. Manila.

<sup>35</sup> World Bank. 2008. Global Financial Crisis and Implications for Developing Countries. G-20 Finance Ministers' Meeting. Sao Paolo.

- ❖ **Apart from poverty, rising inequality is an emerging concern. However, inequality does not figure as an objective in Strategy 2020's vision or mission statement. Without a focus on both the reduction of poverty and inequality, Strategy 2020 might be open to the criticism that it characterizes a growth process as inclusive when poverty has declined but inequality has risen, as is the case in the PRC and India.**

92. Strategy 2020 does not specifically call for measures to reduce inequality, even though it recognizes this issue in discussing the regional development context. The inclusive growth strategic agenda implicitly refers to inequalities with its call for greater access to opportunities in one of its pillars, especially for the poor and disadvantaged. However, a challenge would be to identify the link between creating equitable opportunities and reducing inequality. Providing access to opportunities is not necessarily sufficient.

93. In the absence of a focus on inequality and a vision statement that calls for an end to poverty, Strategy 2020's approach to inclusive growth comes close to the World Bank's absolute definition of pro-poor growth.<sup>36</sup> The question is, can growth be truly inclusive in a situation where poverty has declined mainly due to rapid economic growth but income inequality has widened? To make such a claim does not seem to have been the intention of Strategy 2020. Yet, without a focus on reducing both poverty and inequality, this question arises.<sup>37</sup>

94. ADB's staff guidelines on inclusive growth attempted to remedy this issue by including one measure on income inequality. However, it would be also timely to include a measure of inequality in opportunities. Addressing inequality would accord the importance it deserves as a crucial development objective in characterizing inclusive growth.

95. The lack of targeted outcomes makes it difficult to assess progress in any inclusive growth process. Targets with definite time frames at the regional and country levels for ADB's inclusive growth agenda have yet to emerge. Country-specific targets are important since ADB's operations are principally at the country level and the needs of countries differ.

96. In 2011, ADB's Economics and Research Department published a set of 35 indicators that could be considered as filling this void in Strategy 2020.<sup>38</sup> These have been incorporated—with slight modifications—in the staff guidelines. The indicators consist of

- (i) six indicators on income and non-income poverty and inequality, including one on income inequality, based on the ratio of the top 20% to the bottom 20% in income or consumption;

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<sup>36</sup> In 2008, the World Bank defined growth as absolutely pro-poor if it reduces poverty. However, this definition does not tell us how much a given growth rate should reduce poverty to be called inclusive. See M. Ravallion. 2008. Evaluation in the Practice of Development. *Policy Research Working Paper Series*. No. 4547. Washington, DC: World Bank.

<sup>37</sup> At the operational level, objectives to reduce income inequality may be difficult to address with the instruments ADB has at its command (other than policy dialogue). Reducing inequality of access to opportunities is easier for ADB to achieve. This can be done by focusing attention on deprived groups in ADB's interventions.

<sup>38</sup> ADB. 2011. *The Framework of Inclusive Growth Indicators 2011: Key Indicators for Asia and the Pacific*. Manila.

- (ii) nine indicators on the creation-of-opportunities pillar (five on economic growth and employment, and four on key infrastructure endowments);
- (iii) fourteen indicators on the access-to-opportunities pillar (six on access to education and health, four on access to basic infrastructure utilities and services, and four on gender equality and opportunity);
- (iv) four indicators on social protection; and
- (v) three indicators on good governance and institutions.

97. The Economics and Research Department's indicators have identified the desired outcomes for the inclusive growth agenda, but so far ADB has set no targets with definite time frames at the regional and country levels. Without such targets, it is impossible to assess whether a particular country is on track to realize inclusive growth. The adoption of ADB's corporate results framework has remedied this deficiency to a certain extent at the regional level. Quantitative targets in Strategy 2020's results framework provide the logical completeness at the regional level necessary for a meaningful strategy—that is, they provide specified outcomes with time-bound targets and a set of credible instruments to achieve them. Without similar targets at the country level, where ADB principally operates, ability to monitor progress remains weak.

- ❖ **ADB's inclusive growth framework is too broad, meaning that almost all of its projects could be categorized under any of the three pillars of inclusive growth.**

98. While the staff guidelines have brought some clarity to the issue, the criteria for classifying projects according to the three pillars would require further clarification. Any ADB project could fall under any of them. If every project falls under one of the three pillars, would that be what is required to be deemed inclusive? The new project classification system coming into effect in 2014 also states explicitly that all ADB's operations support one of the three pillars under inclusive growth.<sup>39</sup> While the rules proposed in the new system for automating data entry to the pillars of inclusive growth appear to partially resolve the issue of classifying each project as supporting more than one pillar, how well this will be operationalized remains to be seen. Even so, the new system does not address the problem that the outcome of inclusive growth will not be achieved by classifying projects under any of the three pillars. Projects need to be designed and implemented with attention paid to benefiting lower-income groups.

- ❖ **Strategy 2020's reassertion of corporate-level sector priorities, after abandoning them under the 2004 Enhanced PRS, needs to be reviewed in light of varying constraints to and opportunities for inclusive growth at the country level.**

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<sup>39</sup> In addition to implementing a data recovery project to ensure harmonization and completeness of the database of ADB operations (for which the Operations Services and Financial Management Department will assume an oversight and custodial role), the new project classification system updates the sector and subsector titles, eliminates key activity areas, and aligns the themes with Strategy 2020's agendas and drivers of change. In addition, the system will create a new climate change classification to monitor climate change in accordance with an agreement with the other multilateral development banks. It will also strengthen the quality control process through revised staff instructions with definitions and criteria for classification, as well as establish a stronger validation process for confirming the proposed classification. The new project classification system is expected to make data input simpler and more robust, and enable reporting for a suite of 17 Strategy 2020 reports. See Appendix 6 of the Project Classification System Report for details issued in 2013.



99. If country considerations are paramount, the logic of reestablishing sector priorities can be called into question. Revisiting this change is imperative because important areas that can provide direct support to inclusive growth, such as agriculture and health, are now considered noncore. Moreover, targets are set in the corporate results framework for the portfolio share of core area operations, which creates negative incentives for noncore area operations and their de-emphasis in country programs. The portfolio analysis section in Chapter 4 discusses this in depth.

100. For a fresh look at an appropriate inclusive growth strategy, given current realities, such a review must look at

- (i) expanding development objectives to include the substantial reduction or elimination of poverty in both income and non-income dimensions, as well as of inequality in both its income and non-income dimensions;
- (ii) specifying time-bound country level outcomes (and regional ones if necessary), although these may be selective and limited in number to a few major areas; and
- (iii) reviewing the adoption of core areas of operations with institution-wide targets, particularly given their influence as disincentives for operations crucial to promoting inclusive growth at the country level in Asia and the Pacific.

## CHAPTER 4

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# Operational Support for Inclusive Growth

101. Before assessing the impact of ADB's support for inclusive growth at the country level where most of ADB's operations are directed, it is important to first examine how the institution is mobilizing its resources and operational strength at the corporate level to support its inclusive growth agenda. This will shed light on how ADB channels operations to help foster inclusive growth in the region.

102. ADB set up the corporate results framework as a monitoring system to assess its performance in implementing Strategy 2020. ADB tracks its progress against the results framework in the annual development effectiveness review. This chapter assesses progress on the inclusive growth indicators in the framework. It also analyses the portfolio to show how ADB supported its inclusive growth agenda through projects approved from 2000 to 2012, including all sovereign and nonsovereign loans, grants, and Japan Fund for Poverty Reduction operations. This chapter also discusses ways in which ADB projects can be made more inclusive at the corporate and country levels.

### A. Does the Corporate Results Framework Properly Reflect Strategy 2020?

103. The corporate results framework ADB adopted in 2008 had 70 indicators to set more concrete operational targets for the implementation of Strategy 2020. The results framework was revised in 2012 and now contains 87 indicators.

104. ADB set up strong operational incentives in areas it emphasized, while—unknowingly at the time—may have reduced incentives in those areas it was not emphasizing. While Strategy 2020 was the vehicle for establishing inclusive growth as a crucial instrument for achieving ADB's corporate vision and mission, the results framework was the actual tool for influencing and assessing operations. The original results framework was in effect from 2008 to 2012. The amended framework was introduced in December 2012, with new targets for 2016. An analysis of the original results framework and its amended version is essential to assess the types of incentives ADB established to support inclusive growth in its operations.

105. Indicators in ADB's 2008 corporate results framework dealt with inclusive growth.<sup>40</sup> They comprised the following:

- (i) **Level 1.** Level 1 indicators track development progress in Asia and the Pacific. They are related to economic growth, poverty, inequality, and

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<sup>40</sup> ADB. 2008. *ADB Results Framework*. Manila.

human development. In addition, proxy indicators monitor economic growth and governance, both key to achieving inclusive growth.

- (ii) **Level 2.** Level 2 indicators track actual ADB-supported outputs in core operational areas and have important inclusiveness features. A number of indicators show where operations directly support access to opportunity. These include the number of people estimated to have benefited from road, electricity, water and sanitation, and education improvements, as well as the number of microfinance and small and medium-sized enterprises. These indicators, however, do not show to what extent opportunities are equitably distributed across populations. Equity should be embedded in inclusive growth. Thus, level 2 indicators are aggregate indicators and do not take into account the distribution of opportunities. It would be appropriate to include additional indicators to reflect how equitably opportunities are distributed across a population.
- (iii) **Level 3.** Level 3 indicators gauge ADB's own operational effectiveness. Only a few are directly concerned with supporting inclusive growth. These include (i) perception surveys of clients and stakeholders about ADB's effectiveness in reducing poverty; (ii) the proportion of projects supporting gender mainstreaming; and (iii) the proportion involving participation with civil society, including nongovernment organizations.
- (iv) **Level 4.** Level 4 indicators gauge ADB's organizational effectiveness, dealing largely with staffing and budget resources and business process efficiency and client orientation. They are not directly concerned with supporting inclusive growth.

106. To what extent did these indicators help ADB support inclusive growth more effectively? Those at level 1, relating to regional outcomes to which ADB made only a small contribution, are intended to provide overall direction and may only very indirectly affect operations. The idea was that ADB would monitor regional trends and adjust its operational focus accordingly. These regional indicators need to be obtained by aggregating the corresponding indicators at the country level. To guide operations, the primary focus should be on country indicators, and the focus should be reflected in country documents such as CPSs.

107. Level 2 indicators more clearly indicate direct operational support to opportunity-creating interventions. As is done in the annual development effectiveness review, they are gauged against the targets originally proposed in the project documents and aggregated across the institution. Level 3 and level 4 indicators specify their own targets against which performance can be assessed.

108. The original 2008 results framework did not include monitoring benchmarks for testing support for inclusive growth in CPSs, although it did assess their quality in general at entry. Neither did the framework include indicators to monitor allocation of resources for inclusive growth. This may have been a major omission, considering that as the two other strategic agendas of regional cooperation and integration and environment had such indicators.

109. Among the changes in the modified results framework adopted in December 2012 was the introduction of new indicators to strengthen the monitoring of inclusive

growth.<sup>41</sup> The absence of such indicators in the years since Strategy 2020 was adopted may have dampened incentives for staff to strengthen inclusive growth in operations and left them focusing instead on core areas. The new indicators in the results framework for tracking inclusive growth are likely to produce better results.

## B. Progress in Implementing the Inclusive Growth Agenda

### B.1 Delivery of Sector-Based Outputs Supporting Inclusive Growth

110. To gauge progress in the inclusive growth agenda, this section examines the most critical indicators of inclusive growth. These deal with access to basic infrastructure services and finance, as well as land improved through better irrigation, drainage, and flood control. They include 15 of the 19 output indicators from core areas of operations tracked under level 2.

111. Appendix 3 summarizes ADB's success in delivering outputs supporting inclusive growth in the five core operational areas. ADB's operations overall were more than 10% off-track from achieving their targets on 9 of the 15 output indicators and 20% or more off-track on 6 of these indicators. The delivery of outputs supporting inclusive growth in ADF countries was even worse in 2009-2012, as noted in the 2012 development effectiveness review.<sup>42</sup> ADF operations were 10% or more off-track for 9 of 15 indicators. The overall ADF shortfall was greater than that for ADB-wide operations, and 7 indicators were 20% or more off-track, 5 were 30% or more off-track, and 3 did not reach even 40% of the target. Because ADF supports the ADB's least-developed DMCs, its interventions are vital to promoting inclusiveness in overall operations. A weak performance in this area raises concerns about the implementation of the inclusive growth agenda.

112. The annual development effectiveness review also assesses outcomes from core and noncore sector operations and the Strategy 2020 drivers of change.<sup>43</sup> The trend in effectiveness improved in projects that were completed in 2010–2012 and for which project completion reports were available, but the levels achieved were still unsatisfactory. About 63% of core sector components in ADB-wide operations were effective in achieving their outcomes. The corresponding percentage for ADF operations was 60%.

113. The achievement of outcomes for the water and education sectors, which are crucial to providing access to development opportunities, was worse than the overall average in both ADB-wide and ADF operations. In the significantly smaller noncore sector operations, support for health, agriculture, and disaster management did better, although targets were not fully met. In ADB operations as a whole, effectiveness rates were 75% for health, 81% for agriculture, and 50% for disaster management, while the corresponding figures for ADF operations were 74%, 79%, and 50%.

<sup>41</sup> ADB. 2012. *Review of the ADB Results Framework*. Manila.

<sup>42</sup> ADB. 2012. *Asian Development Bank's Development Effectiveness Review 2012*. Manila.

<sup>43</sup> The effectiveness in achieving outcomes of core and noncore sectors was assessed using the ratings from ADB's project completion reports, project validation reports, and project performance evaluation reports, all of which base their project ratings primarily on outputs. For the detailed methodology, see ADB. 2012. *Development Effectiveness Review 2012*. Manila.

## B.2 Gender Mainstreaming, Civil Society Participation, and Stakeholder Perceptions

114. Of Strategy 2020's five drivers of change, gender equality is particularly relevant to inclusive growth.<sup>44</sup> ADB operations specifically target the promotion of gender equality through (i) greater participation of women in water-user groups, livelihood training, and decision making; (ii) greater time savings for women through better access to water supply and sanitation; (iii) improved capacities through training for female teachers and scholarships for girls; (iv) greater access to credit; (v) more jobs and income for women; and (v) lower maternal and infant mortality rates through better health services.

115. Starting from a low level of mainstreaming gender concerns in 2009 of only 27% of operations, ADB successfully increased the share of mainstreamed operations beyond 40% in 2011, its development effectiveness review target for that year. In 2012, the share was 49% for all operations and 59% for ADF operations. However, only 54% of operations promoting gender equality in 2009–2012 were found to be effective in achieving their targets.

116. The success achieved was the result of efforts over several years to (i) strengthen staff resources and skills to better identify gender mainstreaming opportunities in operations, (ii) specify gender outcomes better in project designs, and (iii) improve project management to deliver the gender outcomes desired.

117. Operations can also be made more inclusive by expanding the participation of civil society in formulation and implementation of ADB projects and programs. Civil society can provide feedback on the impact of inclusive growth operations on beneficiaries, particularly marginalized groups, helping to improve the representation of excluded groups.

118. Given these benefits, ADB has aimed to more effectively involve nongovernment organizations and civil society organizations (CSOs) in its operations. According to the 2012 development effectiveness review, the proportion of operations with CSO participation rose to 98% for both ADB and ADF operations during that year from 78% for ADB operations and 85% for ADF operations in 2006. Almost all operations are now conducted with some level of civil society involvement, due to greater staff capacity to use participatory approaches, more collaboration with CSOs in preparing social safeguard documents and monitoring implementation of safeguards, and greater awareness of the role of CSOs among project implementers.

119. Direct feedback from stakeholders is another good way to track operational support for inclusive growth. ADB's biennial perceptions survey asks respondents whether the organization is helping reduce poverty; 57% of respondents in the 2012–2013 survey said it was, up from 50% in 2009 and a significant improvement over the 45% benchmark set in 2006.<sup>45</sup> Under Strategy 2020, inclusive growth is seen as a means to achieve the overarching goal of poverty reduction.

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<sup>44</sup> Strategy 2020 identifies drivers of change that should be stressed in all operations—developing the private sector; encouraging good governance; supporting gender equity; helping developing countries gain knowledge; and expanding partnerships with other development institutions, the private sector, and community-based organizations.

<sup>45</sup> The 2012–2013 survey had 900 respondents from governments, the private sector, civil society, the media, development agencies, and academia in 31 of ADB's DMCs.

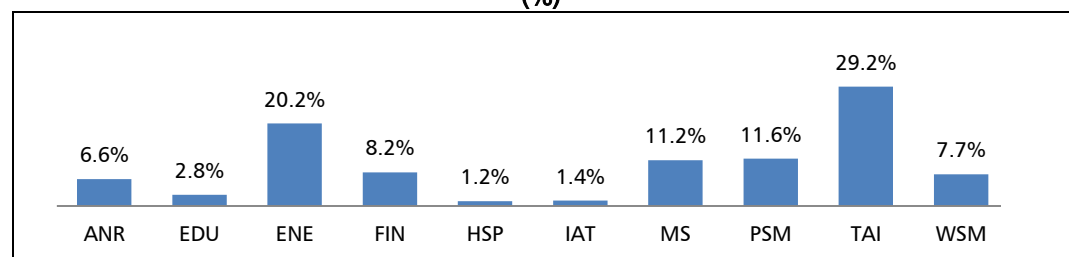
### C. Portfolio Analysis at the Corporate Level

120. The portfolio analysis presented in this section covers projects approved from 2000 to 2012, including all sovereign and nonsovereign loans, grants, and Japan Fund for Poverty Reduction operations.

121. ADB's operations approved during 2000–2012 totaled \$137 billion. Figure 3 depicts the share of ADB operations by sector. All projects are divided into 10 mutually exclusive sectors. Three sectors—energy, transport and ICT, and water supply and other municipal infrastructure and services—constituted about 57% of ADB's portfolio.<sup>46</sup> The share of rural infrastructure over the 13-year period was just 14.1%.<sup>47</sup> This suggests that most of ADB's investment in infrastructure was not aimed at having an impact on the region's rural areas. The agriculture and natural resources sector accounted for a similarly small 6.6% of ADB's total portfolio in 2000–2012. Given that the majority of the poor still live in rural areas, agriculture might have been expected to play a greater role in achieving inclusive growth.

122. The education sector received only a 2.8% share of the ADB portfolio in the 13-year period (Figure 3). The inclusive growth framework under Strategy 2020 has a separate pillar for social protection. Projects under pillar 3 are meant to target the poorest and the vulnerable. However, as noted, a mere 1.2% of ADB's portfolio supported health and social protection.

**Figure 3: Share of ADB's Portfolio by Sector, 2000–2012 (%)**



ANR = agriculture and natural resources, EDU = education, ENE = energy, FIN = finance, HSP = health and social protection, IAT = industry and trade, MS = multisector, PSM = public sector management, TAI = transport and ICT, WSM = water supply and other municipal infrastructure and services.

Source: Independent Evaluation Department staff estimates.

123. It is evident from its portfolio that ADB support for inclusive growth has been mainly channeled through infrastructure. However, the impact of infrastructure projects on the poor would be rather indirect and difficult to quantify.<sup>48</sup> Projects

<sup>46</sup> The study also examined the portfolio during the 2000–2008 and 2009–2012 periods to determine whether any significant change followed the adoption of ADB's inclusive growth agenda under Strategy 2020 in 2008. The results were similar to the findings on the aggregate portfolio for 2000–2012—the largest shares of ADB resources in both the periods were allocated to transport and ICT and to energy.

<sup>47</sup> Rural infrastructure includes energy, transport and ICT, water and other municipal infrastructure, and services projects under each pillar with a low-to-high-impact contribution to rural development. Impact contribution is then quantified in percentage terms in 5% steps and classified as either low impact (5%–20% impact contribution), or medium impact (25%–40%), or high impact (45%–100%). The location and purpose of the project outputs is the main criterion, followed by project budget, but other significant considerations can lead to different weights, based on the project officer's judgment. The definition of low, medium, and high impact is based on the location marker description from the 2009 project classification guide.

<sup>48</sup> The study acknowledges the indirect impact of certain development interventions on inclusive growth. However, indirect impacts of development interventions on inclusive growth are more difficult to measure

broadening opportunities in education and health are likely to have a more direct impact on inclusive growth. Similarly, projects supporting well-targeted social protection directly impact the well-being of the poor and vulnerable. To promote inclusive growth, it is imperative that ADB provide a more adequate support across sectors than it has in the past.

## D. Project Classification for Inclusive Growth

124. In March 2013, ADB issued staff guidelines on inclusive growth to guide the classification of operations under the three pillars of inclusive growth. ADB projects in the portfolio analysis discussed in the previous section are classified under one of the three pillars.<sup>49</sup>

125. Projects under pillar 1 are aimed at growth. These are mostly infrastructure projects that are likely to have an indirect impact on inclusive growth. As stated earlier, infrastructure projects cannot be automatically assumed to achieve inclusive growth, and those that do have varying impacts on inclusiveness. For example, railways that help connect major urban areas may spur overall economic growth but may not directly improve education and health opportunities or support livelihoods for lower-income groups. Neither may energy generation projects that increase the productive capacity of the economy unless they involve providing electricity to lower-income households. On the other hand, a significant number of ADB infrastructure projects do help improve access to opportunities. Rural roads fall into this category as they may improve access to health and education opportunities and increase livelihood opportunities for the region's poor, the majority of whom are found in rural areas. Indeed, most of ADB's other rural infrastructure projects would fall under this category too. Such inclusive infrastructure projects are classified under pillar 2. Pillar 2 also includes projects in education and health. Pillar 3 projects are aimed at promoting social protection, creating safety nets, or helping reduce vulnerabilities through such activities as disaster management.

126. In 2000–2012, ADB approved 1,132 sovereign and 193 nonsovereign projects, totaling \$137.5 billion. Nearly all were potentially directed toward at least one of the three pillars of inclusive growth.<sup>50</sup> The few projects that were not were mostly classified as interventions against environmental degradation or in favor of biodiversity conservation and were more in line with Strategy 2020's environmentally sustainable growth agenda.<sup>51</sup>

127. Figure 4 shows the distribution of ADB's portfolio by the amount apportioned under the three pillars of its inclusive growth agenda. ADB's project classification system, which is used in this study, categorizes projects under the three pillars based on value judgments about whether resources are primarily aimed at the growth, access to opportunities, or social protection aspect of its support for inclusive growth. While

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than direct impacts. And because indirect impacts are not easily measured, this study does not discuss the relative importance of direct and indirect impacts of development projects on inclusive growth.

<sup>49</sup> These cover all but a few of ADB's projects, such as pure environment projects with little economic or social impact.

<sup>50</sup> ADB has classified projects in this way from 2008. Using the same criteria, this study also classified projects approved earlier, starting in 2000. The study takes into account the interaction or overlapping classification between the pillars. For instance, if an infrastructure project under pillar 1 aiming to promote growth also aims to contribute to access to opportunities, the project is assigned under pillar 2.

<sup>51</sup> Of the total ADB portfolio for 2000–2012, 12 projects totaling \$370 million were not classified as supporting any of the three pillars. These projects represent less than 1.00% of the total portfolio by number and 0.25% by amount.

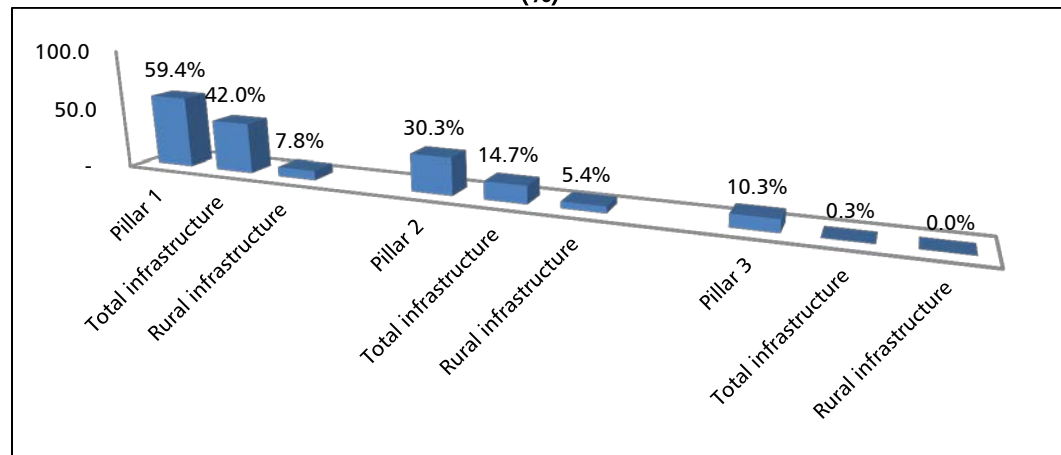
the pillars indicate various aspects of inclusive growth, classifying projects under one of the three does not automatically guarantee that the outcomes of inclusive growth will be achieved.

128. About 59% of total financing in 2000–2012, or \$81.51 billion, was classified under pillar 1, 30% under pillar 2, and 10% under pillar 3. Counting only stand-alone social protection activities, the share of pillar 3 interventions is reduced to just 2% of the total portfolio,<sup>52</sup> while the corresponding share of pillar 1 projects rises to 64% and that of pillar 2 initiatives to 34%.

129. Excluding support during various crises in DMCs, pillar 3's share is reduced to only 1%. Strictly speaking, emergency loans in response to crises and disaster management are not safety net programs because they benefit both the poor and non-poor. However, irrespective of whether a broad or strict definition of social protection is used, ADB has invested much more heavily in pillar 1 than in pillars 2 or 3 or the two combined.

130. Pillar 1 projects also received the largest proportion by number of projects during 2000–2012, albeit more narrowly, at 43%, followed by 42% for pillar 2 and 15% for pillar 3. Overall, the allocation by number of projects is more balanced than the allocation by amount over the period reviewed.

**Figure 4: Share of Project Amounts Supporting Inclusive Growth by Pillar, 2000-2012 (%)**



Pillar 1 = sustained and high growth; Pillar 2 = broader access to opportunities; Pillar 3 = strengthening safety nets.  
Source: Independent Evaluation Department staff estimates.

131. All three pillars are aimed at different aspects of inclusive growth. Each pillar by itself cannot achieve inclusive growth. A portfolio that rests too heavily on a single pillar would be inadequate given that ADB's inclusive growth agenda is anchored on three pillars. While country circumstances could determine individual country portfolios,<sup>53</sup> the overall ADB portfolio should strive to adequately support all three. As the region continues to grapple with persistent poverty and faces growing disparities in income and opportunities, pillar 2 and 3 projects have greater roles to play in achieving inclusive growth. Efforts to come up with a portfolio that provides adequate support

<sup>52</sup> Similar estimates of ADB support for social protection are reported in ADB. 2012. *Special Evaluation Study on ADB's Social Protection Strategy*. Manila.

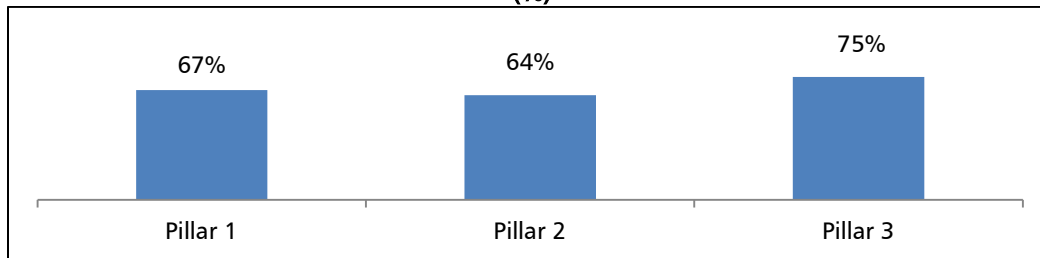
<sup>53</sup> For instance, when a government and/or other development partners provide strong support for a pillar, ADB could be justified in deemphasizing its own support in that area.



between the pillars could be documented as part of the CPS dialogue with governments.

132. ADB rates the success and performance of its projects after completion on four criteria: relevance, effectiveness, efficiency, and sustainability.<sup>54</sup> Projects rated *successful* on these criteria overall are more likely to have achieved a better inclusive growth outcome than those judged to be *unsuccessful*. About 300 of more than 1,300 projects approved in 2000–2012 have been evaluated so far. Of these, about 70% were rated *successful*. Given that this percentage is based on fewer than one-quarter of all the projects, it needs to be treated with caution as representative of a rate for all ADB projects. Figure 5 indicates that the success rate of projects under pillar 3 is the highest, at 75%. The figures for pillars 1 and 2 are 67% and 64%, respectively. If ADB's suitability for undertaking pillar 1 projects is a valid reason for maintaining the oversized support for that pillar, the institution must still do much more to achieve more acceptable success rates.

**Figure 5: Success Rate of Projects by Pillar, 2000–2012 (%)**



Pillar 1 = sustained and high growth; Pillar 2 = broader access to opportunities; Pillar 3 = strengthening safety nets; Note that the total number of projects rated were 97 for pillar 1, 154 for pillar 2, and 48 for pillar 3.

Source: Independent Evaluation Department staff estimates.

133. Figure 6 shows that while support was largely directed toward pillar 1, allocation shares varied between the three pillars during 2000–2012. This appears to have been the result of changes in ADB's strategic priorities and economic shocks during the period. These influences included the following:

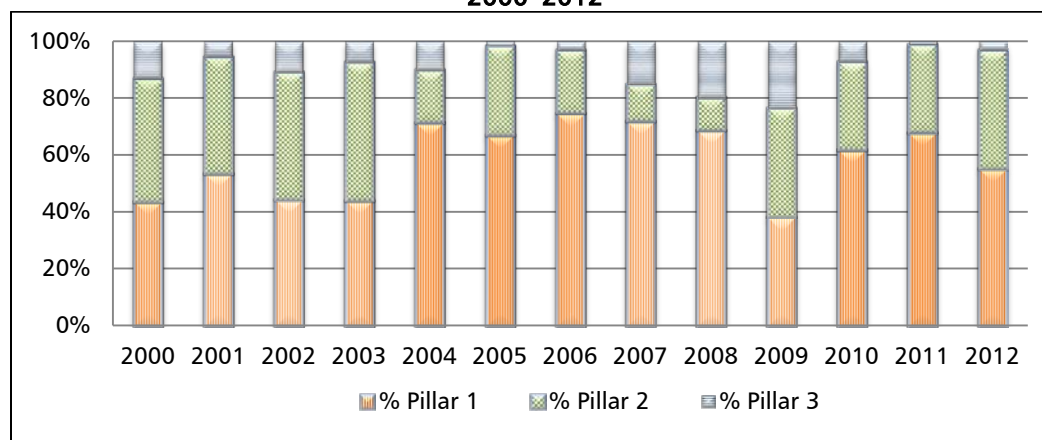
- (i) **The Poverty Reduction Strategy, 2000–2004.** Priorities in the 1999 PRS and the long-term strategic framework adopted 2001, particularly the requirement that 40% of lending be allocated to poverty interventions, guided ADB operations during this period. Resources were allocated roughly evenly between pillars 1, 2, and 3.
- (ii) **The Enhanced Poverty Reduction Strategy, 2004–2008.** In the period between adoption of the Enhanced PRS in 2004 and Strategy 2020 in 2008, projects under pillar 1 increased sharply and those supporting access to opportunities and safety nets declined. With targeted interventions replacing poverty interventions under the Enhanced PRS and no fixed allocation requirements, the share of projects under pillar 1 increased sharply from 51% in 2001–2004 to 71% in 2005–2008.

<sup>54</sup> These four criteria are fully explained in IED. 2014. *Guidelines for Project/Program Performance Evaluation Report*. Manila: ADB.

- (iii) **Economic crises, 2008–2010.** The food price crisis and global financial crisis of 2008 moderated the emphasis on pillar 1 projects in the Enhanced PRS, with more support going to the other pillars. The share of projects under pillar 1 began to drop in 2007. This continued until 2009, accompanied by an increase in support for the other two pillars. Support for safety nets contributed significantly to crisis lending operations during these years. In 2009, for example, the share of projects under pillar 1 decreased to about 40%, while those classified under pillar 2 rose to nearly 40% and those under pillar 3 to 20%.
- (iv) **Strategy 2020, beginning in 2009.** The share of projects under pillar 1 was 55% in 2009–2012. It has remained below the level during Enhanced PRS period and higher than the share of projects under pillar 2. The share of pillar 3 has tapered off since 2009, most likely due to the end of crisis lending.

134. The trends by pillar are similar when measured by number of projects. In the PRS period, pillar 1 received less emphasis than during the Enhanced PRS period. This was particularly the case during the crises period, due to an increase in social protection lending.

**Figure 6: Share of Yearly Project Amounts Supporting Inclusive Growth by Pillar 2000–2012**



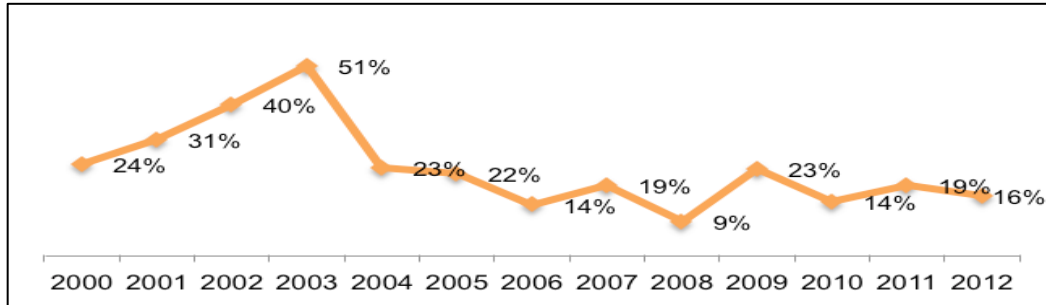
Pillar 1 = sustained and high growth; Pillar 2 = broader access to opportunities; Pillar 3 = strengthening safety nets.

Source: Independent Evaluation Department staff estimates.

135. The trends discussed above suggest that ADB's strategic changes, tempered by the regional economic situation, have influenced the pattern of support for the three pillars. The shift in strategic priorities from the PRS to the Enhanced PRS clearly affected the balance between pillars 1, 2, and 3, as the classification between targeted and general interventions introduced under the Enhanced PRS may have done as well. Targeted interventions included (i) projects supporting poverty reduction (the category known as poverty interventions under the PRS), (ii) projects located in geographical areas with high concentrations of the poor, and (iii) projects supporting the achievement of the non-income MDGs.

136. By amount, targeted interventions comprised only 21% of total operations supporting inclusive growth during 2000–2012.<sup>55</sup> From 2000 to 2003, the share of targeted interventions in inclusive growth operations rose sharply, peaking in 2003 when more than half of projects supporting inclusive growth fell into this category. This was due to the introduction of the PRS and its 40% target of lending for poverty interventions. The adoption of the Enhanced PRS in 2004 appeared to reverse this trend, with targeted interventions declining sharply to 23% in 2004 and remaining low since then (Figure 7).

**Figure 7: Share of Targeted Interventions in Projects Supporting Inclusive Growth 2000–2012**

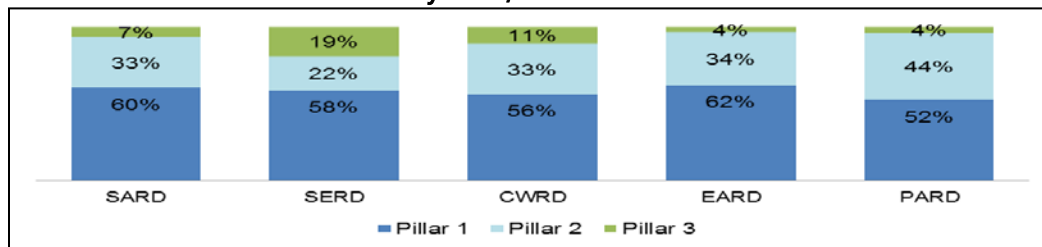


Source: Independent Evaluation Department staff estimates.

137. Infrastructure investments account for almost 70% of pillar 1 projects. Since 2008, about 96% of infrastructure projects were classified as general interventions and the rest as geographically targeted interventions. Similarly, not all pillar 3 projects are targeted. Factors such as gender and poverty profiles should be considered in targeting methods for inclusive growth interventions.

138. During 2000–2012, South Asia received the largest share of ADB’s support for inclusive growth, at 30% of the total (Appendix 4). One-quarter of ADB’s total support for inclusive growth targeted Southeast Asia, and another one-quarter went to Central and West Asia. These subregions were followed by East Asia (19%) and the Pacific (1%). Annual distribution was roughly consistent with the overall regional trend.

**Figure 8: Allocation of Inclusive Growth Projects in Regional Departments by Pillar, 2000–2012**



Pillar 1 = sustained and high growth, Pillar 2 = broader access to opportunities, Pillar 3 = strengthening safety nets. SARD = South Asia Department; SERD = Southeast Asia Department; CWRD = Central and West Asia Department; EARD = East Asia Department; and PARD = Pacific Department.

Source: Independent Evaluation Department staff estimates.

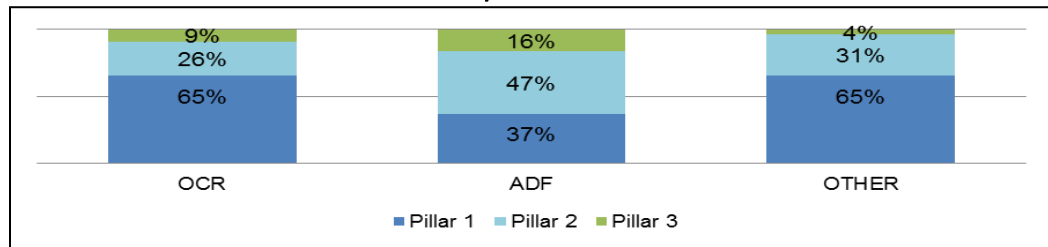
139. The emphasis on pillar 1 projects can be seen in Figure 8, which provides a view of the allocation of inclusive growth projects during 2000–2012, disaggregated by the

<sup>55</sup> For the non-income MDGs, these trends are similar to the results reported in IED. 2013. *Thematic Evaluation Study on ADB’s Support for Achieving the Millennium Development Goals*. Manila: ADB.

five ADB subregions and by the three pillars. Figure 8 shows that regional departments all broadly mirrored ADB's overall emphasis on pillar 1 projects, with 60% or more of the inclusive growth projects under the East Asia Department and South Asia Department supporting pillar 1. In South Asia, the emphasis on pillar 1 compared with the rest of the region, despite the subregion's higher incidence of poverty and lower human development attainments, appears to be particularly imbalanced. The Pacific Department program seems to be the best balanced between pillars 1, 2, and 3, although the very small share of the subregion's inclusive projects in ADB's overall inclusive growth interventions (at 1%) did not have an impact on the overall trend.

140. On the other hand, the pattern differed markedly depending on the source of funding. Loans funded from ordinary capital resources mainly favored pillar 1 projects, since many of these were revenue generating and could help finance borrowing from this nonconcessional window. However, ADF-financed loans and grants primarily supported the other two pillars (Figure 9). This indicates that ADF-supported loans, which target economically weaker countries, focused more on pillars 2 and 3, in keeping with their higher poverty and lower human development levels.

**Figure 9: Portfolio Share of Fund Sources Supporting Inclusive Growth in Operations by Pillar, 2000–2012**



ADF = Asian Development Fund; OCR = Ordinary Capital Resources; Other = Special Funds, Japan Fund for Poverty Reduction, Japan Fund for Information and Communication Technology, Equity, B-Loans, Guarantees, and Trade Finance Facilitation Program; Note that ADF and OCR incorporate disaggregated blend projects; Pillar 1 = sustained and high growth; Pillar 2 = broader access to opportunities; Pillar 3 = strengthening safety nets.

Source: Independent Evaluation Department staff estimates.

## E. How to Make Projects Inclusive

141. Projects and programs are the primary instruments through which ADB implements its strategic objectives, including its goal of achieving inclusive growth. All projects have the potential to contribute to inclusive growth. ADB's current project classification system categorizes projects under pillars 1, 2, or 3 of its inclusive growth agenda, but, as noted, ex-ante classification of interventions as supporting inclusive growth cannot ensure that inclusive growth will be realized. How ADB designs and implements its projects is just as important as identifying what types of interventions it supports. The design plays a significant role in ensuring that projects classified under pillars 1, 2, or 3 are formulated in ways that accord special attention to benefiting lower-income groups. Projects need to be implemented efficiently and effectively, and they must be monitored to establish whether the lower-income groups targeted for opportunities actually are able to access them.

142. Infrastructure projects are not automatically assumed to promote inclusive growth. Infrastructure interventions, which comprise the bulk of pillar 1 projects, can help support inclusive growth if they (i) generate additional employment and economic opportunities; (ii) lower production costs through better transport and connectivity; (iii)

improve overall production capacity; (iv) boost connections to markets and other economic activities; and (v) enhance access to schools, health clinics, and other basic services.<sup>56</sup> Overall, infrastructure projects can help achieve inclusiveness if they are designed with special attention for lower-income groups. This does not necessarily imply that every infrastructure project should focus on lower-income groups.

143. The ADB-supported Jamuna Bridge project in Bangladesh is an example of an infrastructure intervention that has promoted inclusive growth (Box 1). The project was rated *highly successful* because it achieved its objective of linking the poorer western and richer eastern regions of Bangladesh. By doing so, it helped link more than 30 million people to Bangladesh's main transport and infrastructure network, thereby lowering transport costs and generating economic opportunities for the poor.<sup>57</sup>

144. The inclusiveness of projects classified under pillar 2—promoting access to opportunities—also largely depends on focusing during design on the need for equity in access to the opportunities the project is intended to create. The analysis on equity in access to basic services presented in Chapter 2 possibly offers a way to determine how equitable access to education, health, and employment opportunities is in a country. The poor and other vulnerable groups often lack access to basic social services including health, education, and basic infrastructure. For projects to help realize inclusive growth, these groups need to be targeted under pillar 2 projects to equip them with economic opportunities crucial for improving well-being. Pillar 2 projects need to go beyond simply providing basic services to ensure that these projects help to promote equitable access to opportunities, particularly among lower-income groups.

#### Box 1: Jamuna Bridge Project in Bangladesh

The Jamuna Bridge Project financed by the Asian Development Bank (ADB) provided a link between Bangladesh's eastern and western regions. Separated from the country's West by the Jamuna River, the country's East is more developed than the West because it has had better access to the capital of Dhaka and international markets through the port of Chittagong. The project helped construct a bridge over the Jamuna River. The bridge includes road lanes and can support an electric power line, telecommunications cables, a gas pipeline, and a railway line.

The bridge has facilitated the movement of more goods and people across Bangladesh. It links more than 30 million people in the country to infrastructure and transport networks. According to ADB's project completion report, market and social activities have increased on both sides of the bridge, and new commercial and residential development has occurred. Household income grew at 3%, compared with 1% in control villages. The project villages had lower per capita income before the project but enjoyed higher per capita income after it. At the same time, income inequality, as measured by the Gini coefficient, declined from 0.45 to 0.43 in the project villages, according to a study sponsored by the Japan Bank for International Construction.

A highly complex and extensive civil works project, the Jamuna Bridge scheme had social and environmental components and resettlement issues. The World Bank, which also funded the project, noted in its implementation completion report that the preparation and implementation of the social and environmental components of large civil works are as important as the design and execution of physical components. For the Jamuna Bridge Project, the World Bank acknowledged, however, that social and environmental components were appreciated until well into project implementation. As of the project's closing, 75% of the people affected by the project were staying as illegal settlers in *khas* land or in the land of relations. They could not purchase new land with the compensation they received for the loss of their homes or farm lands. About 40% of the affected people were left unemployed because they lost their jobs as handloom operators, agricultural workers, and day laborers.

Sources: ADB. 2000. *Completion Report: Jamuna Bridge Project in Bangladesh*. Manila (Loan 1298-BAN[SF]); World Bank. 2000. *Implementation Completion Report (IDA-25690) on a Credit in the Amount of US\$200 million to the People's Republic of Bangladesh for the Jamuna Bridge Project*. Washington, DC; A. Bayes. 2007. *Impact Assessment of Jamuna Multipurpose Bridge Project (JMBP) on Poverty Reduction*. A study prepared for the Japan Bank for International Cooperation. Bangladesh.

<sup>56</sup> ADB. 2012. *Infrastructure Supporting Inclusive Growth and Poverty Reduction in Asia*. Manila.

<sup>57</sup> ADB. 2000. Project Completion Report on the Jamuna Bridge Project (Loan 1298-BAN[SF]) in Bangladesh. Manila; World Bank. 2000. Implementation Completion Report (IDA-25690) on a Credit in the Amount of US\$200 million to the People's Republic of Bangladesh for the Jamuna Bridge Project. Washington, DC; A. Bayes, (2007). *Impact Assessment of Jamuna Multipurpose Bridge Project on Poverty Reduction*. A study prepared for the Japan Bank for International Cooperation.

145. In Viet Nam, ADB implemented a project that aimed to revamp the country's vocational and technical education system (Box 2). The project included policy reforms that sought to provide students who were disadvantaged because they were poor, women, and members of ethnic minorities with better access to vocational and technical education. This project was rated *successful* and helped address the country's demand for skilled labor.

#### Box 2: Vocational and Technical Education Project in Viet Nam

The Asian Development Bank's Vocational and Technical Education Project in Viet Nam helped reform the country's vocational and technical education system during 1998-2008. Ethnic minorities were identified and targeted in five schools located in areas with substantial ethnic minority populations. To target women, two pilot programs teaching sewing and nursing were introduced in two of the fifteen schools supported by the project overall.

The project improved opportunities for women by creating greater awareness of skills training programs to help them become self-employed. This may have contributed to an increase in the share of female students, albeit by only a few percentage points, from around 17% in 2002 to 25% in 2005. Nevertheless, the nature of the training continued to reflect traditional gender-focused domains. Men registered in technical areas, and women enrolled mainly in textile and economics courses. The project established a new model mobile training program to reach out to poor rural communities of mainly ethnic minorities. Three mobile training centers were established for 540 people—78% of whom were women and 76% members of ethnic minorities.

However, no clear increase occurred in the enrollment of ethnic minority and poor students over the life of the project. Despite efforts to reach out to disadvantaged students, the project did little to address the constraints to the participation of the poor and ethnic minorities in vocational education. For example, the project could have supported policies of schools and local governments to assist poor and ethnic minority students by providing scholarships, transportation, living-cost subsidies, priority in housing arrangements, and extracurricular activities to help the students integrate. The project did not sufficiently incorporate the issue of low student demand for vocational and technical education in its design. Because academic degrees were still preferred by most students in the 15 school areas over vocational degrees, many students who entered vocational training schools were low-performing students from poor households who could not get into public academic schools and could not afford high tuition fees at private schools.

Source: IED. 2013. *Performance Evaluation Report: Vocational and Technical Education Project in Viet Nam*. Manila: ADB.

146. In helping to improve access to economic opportunities, particularly basic services, ADB also supports communities. In the Philippines, ADB is financing a community-based development initiative that aims to enable communities to identify their most crucial needs in basic services and to know how to best respond to these needs (Appendix 5). This helps ensure that the projects that are selected and carried out meet a community's actual needs.

147. The impact of projects categorized under pillar 3 of ADB's inclusive growth agenda can be maximized by incorporating good targeting systems in project design. This ensures that more resources are devoted to those who need safety nets the most. Proper targeting also prevents leakage and inclusion and exclusion errors in selecting beneficiaries.

148. ADB is providing support for a conditional cash transfer program in the Philippines (Box 3). Among other things, it aims to make the national targeting system for selecting household beneficiaries efficient. The selection of the poorest households in a municipality is based on the government's National Household Targeting System for Poverty Reduction, which applies a proxy means test that uses such variables as housing type and asset ownership to determine the socioeconomic category of households. During project design, field consultations with potential beneficiaries,

representatives of schools and health facilities, parent groups, project staff, and officials at all levels were conducted to help prepare social and poverty analyses.

### Box 3: Social Protection Support Project in the Philippines

The Philippines, through its Department of Social Welfare and Development, has been implementing a conditional cash transfer scheme called the Pantawid Pamilya Pilipino Program since 2008. As of June 2013, the program had registered 3.9 million households. In 2010, the Asian Development Bank allocated \$400 million for the Social Protection Support Project in the Philippines. The program provides a maximum annual cash grant of about \$350 per year for a family with three children aged 6–14 years if the family meets specific conditions linked to education and health.

The investment in human capital is expected to enable poor children to land better jobs when they become adults, thereby breaking the intergenerational cycle of poverty. An impact evaluation done by the World Bank on the conditional cash transfer program showed that the school participation rate of children age 6–14 increased. Another study published in 2013 also found that the school participation rate of children aged 6–14 had increased and that significant positive health effects had resulted that promised better prospects for the children's productivity in later life. However, both studies found that the school participation rate among program beneficiary children aged 15–18 did not differ significantly from that of non-beneficiaries in the same age range. Noting that a high school graduate earns at least 40% more than someone who has some elementary education, the study conducted for the Philippine Institute for Development Studies recommended extending the program to cover beneficiary children up to 18 years of age to ensure they finish high school. This will give poor children a better chance to find better paying jobs later on in the labor market. The government indicated that the program will be extended to cover children up to 18 years of age. In addition, improvements in the targeting system to reduce an estimated leakage rate of 30% will ensure that the poor will benefit from the program.

Sources: ADB. 2010. Philippines: Social Protection Support. Manila; World Bank. 2013. *Philippines Conditional Cash Transfer Program: Impact Evaluation 2012*. Washington, DC; C. Reyes, et. al. 2013. Promoting Inclusive Growth through the 4Ps. *Economic Policy Monitor 2012*. Makati City: Philippine Institute for Development Studies.

149. ADB's new project classification system, coming into effect in 2014, provides more detailed criteria for classifying projects under pillars 1, 2, or 3. This new system ultimately aims to ensure that projects are classified under only one of the pillars to avoid overlapping. The new system does not address the actual design of projects to ensure that lower-income and other vulnerable groups benefit relatively more. More detailed project design guidance would be needed to achieve this, perhaps in the form of a good practice note.

150. To deliver on Strategy 2020's inclusive growth agenda, ADB's project preparation should include more rigorous targeting of lower-income and other vulnerable groups, and better analysis of the provision of and equity in access to opportunities. Project preparation should also incorporate better assessment of political and institutional settings. For instance, an analysis of legal and regulatory frameworks is important in the provision and maintenance of basic services in such areas as education and health. Moreover, proper assessment of gender, risk, and vulnerability issues is crucial to prevent the marginalization of vulnerable groups, as is proper implementation of ADB's Safeguard Policy Statement (2009).

151. The link between project outputs and outcomes should also be clearly discussed. Outcomes such as poverty reduction and equitable access to opportunities contribute to the inclusiveness of growth. Performance indicators for project outcomes provided in the project design and monitoring frameworks sometime fail to link with inclusive growth results, are generally imprecise, and often lack either baselines or targets. Clear and measurable targets for project outcomes, particularly those related to inclusive growth aspects of an ADB intervention, should be part of design and monitoring frameworks, while risks and assumptions related to the conversion of outputs into outcomes could also be more clearly spelled out.

## CHAPTER 5

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# ADB's Contribution to Inclusive Growth in Selected Countries

152. This chapter assesses ADB's inclusive growth agenda at the country level in six selected DMCs. It explores how ADB has identified the obstacles to inclusive growth in these countries, allocated its resources between the three pillars, and coordinated with other donors to advance the agenda in the selected DMCs.<sup>58</sup> Since constraints to and opportunities for inclusive growth vary by country, this chapter also examines how ADB keeps its inclusive growth approach attuned to the particular needs of its DMCs.<sup>59</sup>

## A. Bangladesh

### A.1 Country Context

153. With significant gains in growth and poverty reduction over the last decade, Bangladesh is making considerable headway toward its goal of inclusive growth. If it is to achieve that objective, however, it needs to fully address its urban–rural and regional disparities, as well as the country's need for greater job generation.

154. Bangladesh's economic growth averaged 5.8% annually during 2000–2010. The rapid growth is mainly attributed to increased labor productivity, which in turn is due to the combined effect of structural changes and higher productivity in agriculture. Growth in the manufacturing sector absorbed part of the labor force from the farm sector. The share of manufacturing rose from 9.7% of the labor force in 2002–2003 to 12.4% in 2010. At the same time, farm productivity has also increased due to more intensive use of superior technology; investment in irrigation; and agricultural diversification into higher-valued activities, such as livestock, poultry, and commercial crops. Agriculture and infrastructure are the government's priority development areas. During 1990–2008, 25.4% of the government's development expenditure went to physical infrastructure; 21.3% to agriculture, water resources, and rural development and institutions; 19.4% to industry and energy; and 12% to education and religion.<sup>60</sup>

155. Its rapid growth helped Bangladesh almost halve poverty over two decades. The poverty headcount ratio declined from 56.8% in 1991–1992 to 31.5% in 2010,

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<sup>58</sup> The evaluation conducted country studies for Bangladesh, Mongolia, Papua New Guinea, the Philippines, Tajikistan, and Viet Nam. The findings presented in this chapter are largely drawn from these studies.

<sup>59</sup> Government policies play a crucial role in realizing inclusive growth at the country level. However, the impact of government policies on inclusive growth is beyond the scope of this study.

<sup>60</sup> Government of Bangladesh, Ministry of Finance. 2008. *Inter-temporal Movement of Sectoral Priority of Annual Development Program (ADP) Expenditure (FY 1990–91 to FY 2007–08)*. Dhaka.



based on national poverty lines adjusted for costs of living. The rate of this decline was significant enough to reduce the absolute number of poor in the country for the first time. It dropped from 61.7 million people in 2000 to 46.8 million in 2010. A rise in wages in the nonfarm sector was the most important driver of poverty reduction in the first half of the last decade. The subsequent reductions in the second half of the 2000s were the result of growth in the farm sector, coupled with the reduction in the dependency ratio.

156. Equitable distribution of the benefits of this accelerated growth has been a major concern for Bangladesh's economy. Income inequality in Bangladesh is currently higher than it is in economic peer DMCs, although it appears to have remained stable at the national level in the 2000s. The income Gini coefficient increased from 39% to 46% during 1991/92–2010, and the Gini consumption coefficient rose from 26% to 32% in the same period. During 2005–2010, however, inequality slightly declined: the Gini consumption fell from 33% in 2005 to 32% in 2010.

157. The country is challenged by problems in the geographical inclusiveness of its growth. Disparities exist between the country's urban and rural areas, and an increase in rural inequality, which rose from 36.4% to 43.1% during 1991/92–2010, has been notable. This has been attributed to rising disparities in income from self-employment in the nonfarm sector, along with an inflow of foreign remittances from migrant workers, which go mostly to the relatively better off (but not necessarily the richest) segment of rural society. Meanwhile, poverty is undergoing urbanization in Bangladesh. The share of the poor population residing in urban areas increased from 10% in 1991–1992 to 17% in 2010, while the corresponding figures in rural areas show a decline from 90% to 82% over the same period. The growing urbanization of poverty puts into question on the traditional notion of equating poverty reduction with rural development.

158. Disparities between regions in Bangladesh have also hampered overall improvements in living standards. Poverty reduction was uneven during the first half of the 2000s, with the western region divisions of Barisal, Khulna, Rangpur, and Rajshahi faring worse than the eastern Chittagong, Dhaka, and Sylhet divisions. The lagging western region caught up in 2005–2010 given greater poverty reduction.

159. Aside from regional disparity, inclusive growth in Bangladesh was affected by the fact that rapid economic expansion did not generate a corresponding increase in employment. In fact, the capacity of growth to generate employment appears to have diminished from prior periods, with employment elasticity decreasing from about 0.90 in the 1980s to 0.50 in the 2000s. Two factors can help explain this phenomenon. First, the massive outflow of labor to foreign countries has reduced the potential for domestic employment. Second, a mismatch between the nature of the jobs generated and the supply of skills offered by the educated young entering the labor market may also account for sluggish employment growth. Most of the new entrants to the ranks of open unemployment are young and educated, according to Bangladesh's labor force surveys.

## A.2 ADB Support for Inclusive Growth in Bangladesh

160. ADB's strategic and operational priorities in Bangladesh are heavily inclined toward pillar 1 and aimed at promoting high, sustained growth. Impediments to rapid growth in Bangladesh such as infrastructure bottlenecks, low tax revenues, and insufficient skills base are identified in the ADB's CPS for the country for 2011–2015,

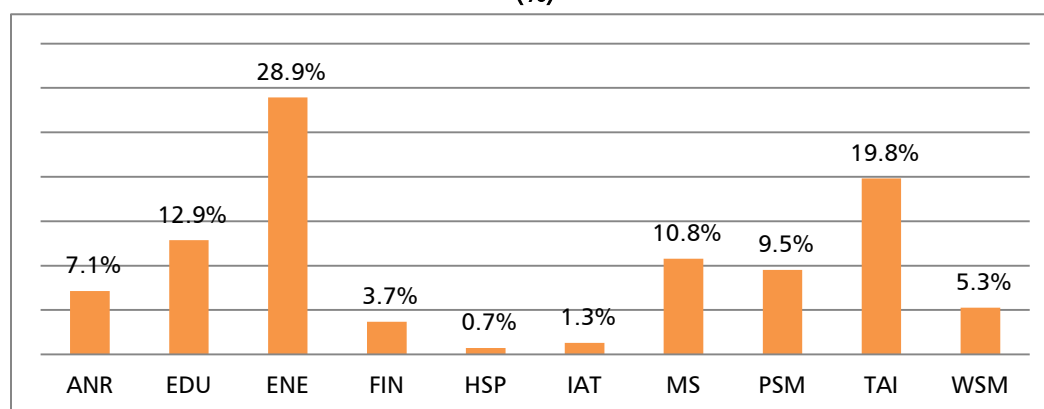
but it contains less discussion of non-income poverty, inequality in access to opportunities, changes in the distribution of opportunities, and employment.

161. While it can be argued that addressing constraints to rapid growth will in principle help broaden opportunities, the CPS does not explicitly discuss this link. The challenge of addressing the spatial constraints to inclusive growth in Bangladesh, particularly rising rural inequality, urbanization of poverty, and regional disparities, begs an extensive discussion of the distribution of opportunities in the country, as well as corresponding ADB support to address these issues.

162. In terms of portfolio composition, pillar 1 projects accounted for 51% of ADB's resources for inclusive growth during 2000-2012, pillar 2 for 34%, and pillar 3 for 15%. Moreover, the share of pillar 1 projects increased from 41% during 2000–2002 to 66% during 2010–2012. The combined share of pillars 2 and 3 declined during the period from 59% to only 34%.

163. Energy and transport projects were allocated the largest shares of ADB support for inclusive growth over the last 13-year period, 29% and 20%, respectively (Figure 10). Education has been the third most important sector, with a 13% share, followed by multisector projects, at 11%, and public sector management, at 10%.

**Figure 10: Share of ADB's Portfolio in Bangladesh by Sector, 2000–2012 (%)**



ANR = agriculture and natural resources; EDU= education; ENE = energy; FIN = finance; HSP = health and social protection; IAT = industry and trade; MS = multisector; PSM = public sector management; TAI = transport and ICT; WSM = water supply and other municipal infrastructure and services.

Source: Independent Evaluation Department staff estimates.

164. The shares of resources accruing to energy and transport projects underscore ADB's focus on infrastructure interventions to help achieve inclusive growth in Bangladesh. In fact, 54% of ADB resources allocated for inclusive growth in the country during 2000-2012 supported infrastructure projects. Improvements in infrastructure are indeed crucial to upgrade connectivity in Bangladesh and thereby ensure that all population groups can participate in the growth process. The ADB-backed Jamuna Bridge project largely eased the integration of the lagging northwest region into the country's growth process (Box 1). ADB's contribution to addressing regional disparities in the country is evident in this project.

165. However, ADB's focus on infrastructure must also be reexamined given rising rural inequality. Only 20% of amount ADB allocated to infrastructure during 2000-2012 went to rural infrastructure, even though linking rural communities in infrastructure

networks helps improve their access to basic services and markets. On the other hand, the remaining 80% that went to urban areas may contribute to reducing growing urban poverty. The positive impact of such urban infrastructure projects on poverty hinges on the targeting of impoverished urban communities, particularly slum areas where living standards are often deficient.

166. In addition to its limited emphasis on rural interventions, ADB paid only a little attention to employment issues in Bangladesh, even though the capacity of the country's growth to generate employment has been declining over the last decade. Ultimately, the task of job generation rests on the government's policies conducive to employment creation. However, ADB can help foster improvements in the labor market through such interventions as support for technical and vocational education, which can provide the young and others with skills that match the market's needs and demands. In its CPS for 2011–2015, ADB indicates that it will phase out support for primary education in Bangladesh and instead bolster support for a skills program to meet the market requirements. During 2000–2012, ADB extended support for three technical and vocational education projects in Bangladesh.

167. Across sectors, selectivity has been the guiding principle of ADB operations in the country. The CPS for 2011–2015, for example, concentrates on six sectors: energy, transport, education, urban development, agriculture and natural resources, and finance. While farm productivity increased in Bangladesh in the last decade, only 6.4% of the CPS envelope is allocated to projects in the agriculture and natural resources sector—in line with its designation as a noncore area under Strategy 2020 and thus allotted less funding than core areas. ADB's limited funding for the agriculture sector may also be accounted for by the government's own high level of expenditures on the development of agriculture, water resources, and rural areas.

168. ADB's planned withdrawal of support for primary education may be explained by the improvements in net enrolment and gender parity at the primary level. However, many of the poor or the vulnerable still lag behind in enrolling and completing primary school. In fact, 6% of the school-age children not enrolled in primary education are from extremely poor households, households headed by women, working children, street children, children with special needs, children from minority ethnic and language groups, and children from remote or inaccessible areas.

169. Meanwhile, ADB support for social protection has been small. This may be due to the government's growing spending on social protection. Social protection schemes accounted for 2.4% of GDP in 2011–2012, a large increase from 1.5% of GDP in the 1990s. However, the share of poor households in transfers decreased in real terms as a share of total consumption levels from 22% in 2005 to 11% in 2010.

170. Persistent problems in the equity of access to primary education and social protection programs call for greater collaboration between ADB and other development partners in Bangladesh. Such problems need to be addressed to ensure that the benefits of growth are accessible to all. Overall, ADB's support for Bangladesh contributes to ensuring the inclusiveness of growth. However, ADB's support can be better aligned to address rising rural inequality and enduring rural poverty.

## B. Philippines

### B.1 Country Context

171. Growth in the Philippines cannot be deemed inclusive because a significant disconnect exists between economic gains and the lagging levels of improvements in living standards and poverty reduction. Inadequate infrastructure and the low capacity of the economy to generate jobs—the phenomenon of jobless growth—are the primary obstacles to making growth more inclusive in the country.

172. The Philippines has moved onto a higher growth trajectory. GDP expanded at an annual average of 4.4% during 2000–2009 and at more than 6% over the 2000–2012 period. Average per capita growth reached 2.5% during 2000–2009. Low inflation, stronger external accounts, a robust financial sector, a stable inflow of remittances, and greater political stability have contributed to higher growth. Education and transport and communication are the sectors receiving the greatest government spending. Between 1981–85 and 2001–05, national government expenditure on education increased from 1.8% of GDP to 2.9%. During the same period, the government's spending on transport and communication decreased from 2.1% to 1.4% of GDP, while the share of agriculture expenditures averaged about 1.0% and that of health declined from 0.6% to 0.3%.<sup>61</sup>

173. However, the challenges of achieving structural transformation, labor productivity, and an infrastructure deficit may undermine the sustainability of Philippine growth prospects. The country has yet to undergo significant structural transformation. The industrial sector's share of GDP accounted for only 32% in 2007 and has been declining since 1980. Improvement in aggregate labor productivity has been weak, increasing only 0.4% annually during 1980–2007. A weak investment climate may be associated with what is significant underinvestment in infrastructure. Gross investment in infrastructure was only about 15% of GDP, compared with more than 30% in Thailand and Viet Nam. The high price and unreliable supply of energy in the country also hamper the country's growth.

174. Economic growth has not been very effective in improving average living standards in the Philippines. Per capita consumption declined by 0.14% in 2000–2003 and 0.15% in 2003–2006 for each 1% increase in per capita GDP. This situation improved considerably in 2006–2009, when 1% growth in per capita GDP converted to 0.4% growth in per capita consumption.

175. The limited capacity of the country's growth to lift living standards is a major obstacle to poverty reduction. The Philippines achieved no significant alleviation of poverty during 2000–2009. The percentage of those living on \$1.25 or less a day decreased from 22.5% in 2000 to 18.4% in 2009. However, the number living on \$1.25 a day increased from 17.4 million in 2000 to 19.7 million in 2006, before dropping marginally to 16.9 million in 2009. The percentage of those living on \$2 or less a day decreased from 44.1% in 2000 to 40.8% in 2009, but their actual number increased from 34.1 million in 2000 to 38.6 million in 2006, before declining to 37.4 million in 2009. The country's population growth rate, which is very high by regional standards, also hampers poverty reduction efforts. The effectiveness of growth in poverty

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<sup>61</sup> B. Diokno. 2010. Philippine Fiscal Behavior in Recent History. *The Philippine Review of Economics*. Vol. XLVII. No. 1. June. pp. 39–87.

reduction would have been almost 1 percentage point higher had population not grown in 2006–2009, all other factors being constant (See Appendix 2).

176. In terms of consumption-based inequality, the Philippines' Gini index decreased from 46% in 2000 to 43% in 2009. While the progress in inequality reduction is quite impressive, the level of inequality remains high. Meanwhile, access to opportunities, particularly education and health services, varies significantly across income groups.

177. The nature of the Philippines' labor market may provide one reason for the failure of aggregate growth to translate into improvements in poverty levels and living standards. Growth has been driven primarily by services and industry, sectors in which the poor have comparatively little ability to participate and benefit because of their lower levels of formal education. These two formal sectors, which generally offer higher wages, tend to employ college graduates. The poor end up in less productive, low-paying jobs. In 2009, 74% of the country's poor had either no formal education or had reached elementary school at most. Among those with no formal schooling, 72% worked in agriculture, 10% in fisheries, and 6% in wholesale and retail trade. Among those with elementary school education, 50% were engaged in agriculture, 13% in wholesale and retail trade, and 7% in fisheries.

178. Most of the underemployed were also engaged in agriculture—44%, based on the January 2012 labor force survey. Another 41% of the underemployed worked in services and 16% were engaged in industry.

## B.2 ADB Support for Inclusive Growth in the Philippines

179. As it does elsewhere in its strategic and operational priorities, ADB emphasizes pillar 1 in its inclusive growth agenda in the Philippines—i.e., in projects aimed at sustaining growth. This may be deemed appropriate, given the absence of a significant structural transformation and the economy's sluggish employment generation.

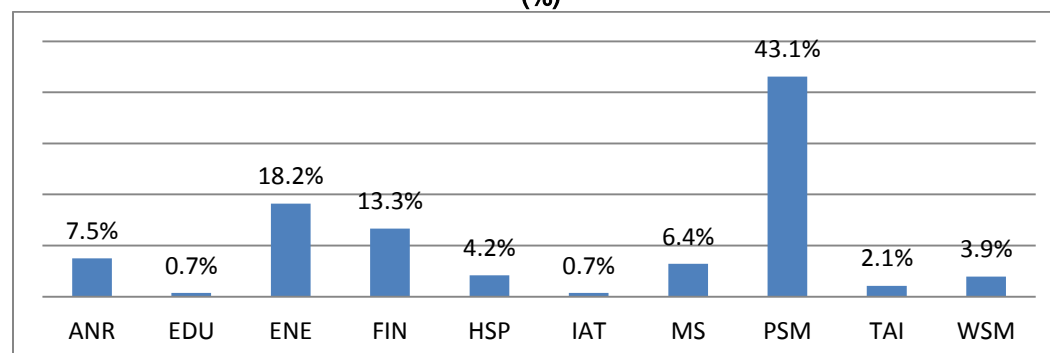
180. More significant, perhaps, is ADB's departure from its usual focus on infrastructure interventions under pillar 1. In the Philippines, public sector management projects comprised 49% of pillar 1 projects during 2000–2012. These schemes have backed fiscal reforms and efforts to improve the macroeconomic environment. They have included support for tax reform and increased competitiveness in the investment climate and for facilitating growth by improving fiscal space for crucial social expenditures in such areas as education and health care. These reforms are necessary for the Philippines, but it is difficult to assess a priori what their impact on inclusive growth will be.

181. The public sector management, energy, finance, and agriculture sectors received the largest shares of ADB resources allocated for inclusive growth during 2000–2012 (Figure 11). The focus on energy is warranted since the high cost of power in the country deters private investments crucial for job generation. Financial sector projects involving microfinance and microinsurance play critical parts in improving the access of households, particularly the poor, to finance and other assets.

182. Agriculture needs continued support because the majority of the poor work in the farm sector. This has added importance due to challenge posed to inclusive growth by the mismatch between the available jobs and available skills in the labor market. Greater agricultural productivity can help generate more and higher paying jobs for the

poor. Growth in the manufacturing sector can also help absorb some of the country's less-educated and low-skilled workers.

**Figure 11: Share of ADB's Portfolio in the Philippines by Sector, 2000–2012 (%)**



ANR = agriculture and natural resources; EDU = education; ENE = energy; FIN = finance; HSP = health and social protection; IAT = industry and trade; MS = multisector; PSM = public sector management; TAI = transport and ICT; WSM = water supply and other municipal infrastructure and services.

Source: Independent Evaluation Department staff estimates.

183. Investing in technical and vocational education also addresses this mismatch and the problem of jobless growth. ADB can certainly make a greater contribution in this area. Vocational education can complement efforts to revive the country's manufacturing sector and provide more employment opportunities.

184. ADB's support for conditional cash transfers in the Philippines can help improve human development outcomes and potentially address the disconnect between high growth and sluggish poverty reduction. As discussed in Chapter 4, ADB's Social Protection Support project in the Philippines has produced positive health effects and increased school participation by children 6–14 years of age (Box 4). Nonetheless, an assessment in 2013 found that the conditional cash transfer program appeared not to influence the rate of school participation by children beyond the age covered by the program. This, along with the fact that the average daily wage of an elementary school graduate is only 10% higher than that of an elementary undergraduate, shows that the program's current design does substantially promote inclusive growth in terms of enabling the poor to participate in the growth process.<sup>62</sup>

185. Extending the conditional cash transfer program could help ensure that children finish high school, maximize the program's benefits, and thereby potentially enhance their employment prospects and contribute to more inclusive growth. The impact of these programs on poverty has yet to be assessed. Prior analysis of how well-targeted they are is particularly important in designing them. However, ADB's support for pillar 3 interventions in the Philippines is projected to be reduced to just 2% in 2011–2015, down from an average of 26% in 2000–2012.

186. Given that the Philippines' performance in poverty reduction has not been impressive, valid reasons exist to reconsider the projected decrease in ADB's support to pillar 3. Because ADB has been partnering with the World Bank and the Australian Agency for International Development (AusAID) in supporting the country's conditional cash transfer scheme, the planned decrease in ADB resources for social protection may be explained as due to the support being provided by other development partners.

<sup>62</sup> C. Reyes and E. Tabuga. 2013. Pantawid Pamilya Pilipino: Why Deepening Matters in Achieving its Human Capital Objectives? *PIDS Policy Note*. No. 2013–02. February.

However, no explicit mechanism has been established to ensure development partners will sustain the funding, and the government lacks sufficient revenue to finance the program itself.

187. Development partner coordination is undeniably important to support inclusive growth in the Philippines. ADB's focus on pillar 1 projects inevitably means some potential human and social development interventions are left unfunded. Whether such gaps will be adequately filled by its development partners is not fully apparent. The coherence of development support is facilitated by the Philippine Development Forum, which is the government's primary vehicle for substantive policy dialogue among stakeholders on the country's development agenda. To maximize development impact and promote inclusive growth, synergy and harmonization among development partners in the Philippines is imperative.

188. Overall, ADB's support for inclusive growth in the Philippines is relevant to the macroeconomic challenges faced by the country, particularly in improving the investment climate. Greater contribution to technical and vocational education is called for to address the challenges in the labor market. Continued robust support for social protection is also critical to address the high level of income inequality in the country and its slow pace of poverty reduction.

## C. Viet Nam

### C.1 Country Context

189. Viet Nam's growth process over the last decade provides an excellent example of inclusive growth. Impressive GDP growth has been accompanied by significant poverty reduction and equity in most opportunities. Nonetheless, the country faces emerging challenges in ethnic minority poverty, a shortage of skilled labor, inefficiencies in state-owned enterprises, and gaps in infrastructure.

190. Mainly driven by investment, the country's aggregate growth rate averaged more than 7% during 2002–2008. Per capita GDP grew almost as well, averaging more than 6% in the last decade. This was at par with the per capita GDP performance of the PRC—the only other economy that has achieved similarly rapid growth. The study finds that growth in Viet Nam has been highly effective in reducing poverty. A 1% GDP growth contributed to the reduction in the percentage of absolute poor by 1.7 percentage points during 2006–2008 (See Appendix 2). In terms of public spending, education spending constituted 16.0% of total state budget expenditures in 2012 and was projected to increase to 18.4% in 2014. Health spending rose from 6.0% in 2012 to 6.4% in 2014. Social security spending increased from 10.0% in 2012 to 11.4% in 2014.<sup>63</sup>

191. Viet Nam's impressive economic performance may be rooted in the economy's capacity to generate opportunities for almost everyone over the last decade. Rural communities, which comprise about 70% of the country's population, benefited from growth in the farm and nonfarm sectors. Agriculture, which grew 3.8% annually during 1990–2012, has been a main source of employment, as well as the primary driving force of better living standards in rural areas. Policy measures such as the elimination of

<sup>63</sup> Government of Viet Nam, Ministry of Finance. [http://www.mof.gov.vn/portal/page/portal/mof\\_en/State\\_Budget](http://www.mof.gov.vn/portal/page/portal/mof_en/State_Budget) (accessed 2 February 2014).

collective agriculture, land reforms, and the removal of trade barriers on most agricultural products, have helped bolster farm growth.

192. In addition, growth in the rural nonfarm sector has generated jobs for the rural labor force. The share of nonfarm income in an average rural household increased from about 32% in 1993 to 54% in 2006 and about 58% in 2008. In urban communities, labor-intensive manufacturing enterprises have flourished, thereby attracting many workers from the rural labor force to industrial hubs. Garments, footwear, seafood processing, and wood products and furniture accounted for around one-third of total manufacturing exports.

193. High government spending for infrastructure and social services has also contributed to Viet Nam's impressive economic performance. From 2000–2010, 29.5% of the state budget was earmarked for public investments, of which roughly one-fourth was spent on infrastructure development and poverty reduction programs. Meanwhile, the government also supported significant expenditure on education and health. Education expenditures amounted to 4.6% of GDP in 2012, while health care investments were equivalent to 1.7% of GDP.

194. Such robust government support for social development has helped enhance access to electricity, education, and health services. Almost 97% of households had access to electricity in 2008. The number of out-of-school children at the primary level was halved from 590,000 in 2002 to 280,000 in 2008. The government has provided free health insurance for the poor and subsidies for health insurance for the near poor, and 48.8% of the poorest had health insurance, which was higher than 39.3% average for the population overall.

195. On the other hand, performance on providing full or equitable access to safe water and sanitary toilets still lags. Only 26.4% of the population had access to safe water in 2008. The rate for people in the poorest quintile—only 8.3%—highlighted serious inequity, particularly compared with the 52.6% for the richest 20% of the population. Similarly, 40.2% of the population had access to sanitary toilets in 2008, but only 8% of the poorest quintile had access to this service, compared with 79.3% of the richest 20%.

196. Growth is a more dominant factor in reducing poverty than the change in the distribution. Although Viet Nam's growth has been comparatively effective in reducing poverty, the effectiveness has been declining. In 2002–2004, 1% growth in GDP reduced the percentage of those living on \$1.25 or less a day by 2.4%. The rate decreased to 1.7% in 2006–2008. The decline in effectiveness, which can also be observed for estimates based on the \$2 a day benchmark, may be due to the concentration of poverty in areas with the worst socioeconomic conditions. In addition, an economic slowdown in recent years has led to lower public spending on social services.

197. Despite these downtrends in effectiveness, 17.4 million people were lifted out of absolute poverty, based on the \$1.25 a day benchmark, during 2002–2008. The percentage of the absolute poor declined at annual rates of 17.5% in 2002–2004, 13.8% in 2004–2006, and 12% in 2006–2008.

198. However, the share of ethnic minority poor in the total poor has been rising since early 1990s. Although they account for only 14.6% of the total population, the country's 53 ethnic minorities comprised 46% of the total poor population in 2008, up



from only 18% in the 1990s. Poor ethnic minorities reside in remote, mountainous areas, making it difficult and costly to provide them with sufficient access to essential services.

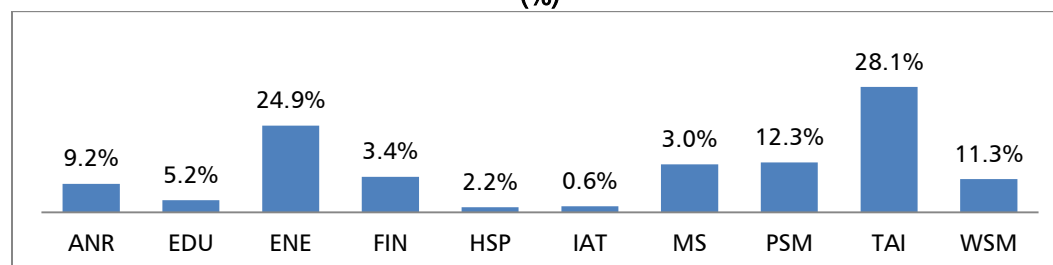
## C.2 ADB Support for Inclusive Growth in Viet Nam

199. ADB's inclusive growth efforts in Viet Nam have focused on pillar 1, aimed at sustaining growth. The CPS for 2012–2015 discusses growth prospects at length but provides only limited analysis on constraints related to pillars 2 and 3—providing access to opportunities and provision of safety nets. The CPS concentrates on income poverty in its discussion of inclusion.

200. This focus on growth may be warranted, since growth was the main driving force of poverty reduction in Viet Nam in the last decade. In addition, Viet Nam must address impediments to rapid growth as it continues its transition into a market-oriented economy. Nevertheless, ADB must complement its support for sustained growth with adequate efforts to broaden access to opportunities to those still excluded from the growth process if inclusive growth is to be sustained. The main inclusive growth challenge in the country is to provide opportunities to ethnic minorities in remote areas.

201. During 2000–2012, 63% of the resources for ADB's operations were allocated to pillar 1, compared with 27% for pillar 2 and 9% for pillar 3. Transport and ICT, energy, public sector management, and water supply and other municipal services were the sectors that received the largest share of ADB support (Figure 12).

**Figure 12: Share of ADB's Portfolio in Viet Nam by Sector, 2000–2012 (%)**



ANR = agriculture and natural resources; EDU = education; ENE = energy; FIN = finance; HSP = health and social protection; IAT = industry and trade; MS = multisector; PSM = public sector management; TAI = transport and ICT; WSM = water supply and other municipal infrastructure and services.

Source: Independent Evaluation Department staff estimates.

202. The share of energy initiatives in ADB's portfolio in Viet Nam decreased sharply from 25% in 2000–2012 to only 7% in 2012–2015. This decline came as the country approached its almost full current electrification rate and was likely not a response to the introduction of inclusive growth in CPS 2012–2015.

203. The share of transport and ICT increased from 28% of ADB's portfolio in 2000–2012 to 35% in 2012–2015. ADB's investments in the sector are largely expressways and highways to support the country's growth and promote greater regional integration of the Greater Mekong Subregion. The share of water supply and other municipal infrastructure and services also increased from 11% in 2000–2012 to 21% in 2012–2015. This increase may be warranted due to the low levels of access to safe water and sanitation facilities and the great inequities in the availability of these

services between the poor and the better-off. Increased support for these services can also play a pivotal role in enhancing urban growth and addressing poverty in urban slum areas.

204. In the past, ADB supported technical and vocational education projects in Viet Nam to help broaden access to employment opportunities. Providing equitable access to this kind of education and training can help address the shortage of skilled labor in the country if projects are well designed. ADB can certainly scale up its support for vocational education and skills development, especially as Viet Nam's transition into a market economy demands more of these skills. Challenges such as overlapping responsibilities between government ministries in overseeing technical and vocational education and low student demand for vocational education were encountered by a previous ADB-backed project (Box 2), and these issues should be thoroughly examined during project design.

205. Infrastructure interventions account for 64% of ADB's operations in the country during 2000–2012. To ensure that such infrastructure interventions help promote inclusive growth, proper project design is crucial so they benefit the country's lower-income groups, who are likely being left behind or out in the growth process.

206. About 13.7% of ADB's infrastructure interventions in Viet Nam support rural infrastructure. The study finds that there is scope for ADB to improve its efforts to link its large-scale infrastructure investments in Viet Nam to local road networks.<sup>64</sup> Doing so would have helped ensure that people in rural and other remote areas could use the expressways to access markets and urban hubs, where most of social and economic opportunities are available. In urban development, ADB's support is seen by this study to be neutral in inclusiveness as its focus is on secondary cities. Urban poverty accounts for half of the national headcount ratio. In most cities where ADB has operated, absolute poverty is very low. Nonetheless, these urban areas can become centers of economic growth and attract rural workers to migrate to or to commute for nonfarm jobs, which in turn could help promote inclusive growth.

207. ADB's limited support for rural development schemes in Viet Nam may be accounted for by the World Bank's focus on basic infrastructure and services for the rural poor. Rural transport accounts for about 35% of the World Bank's total lending in the country's transport sector, while rural water supply and sanitation projects comprise about 51% of its total lending to the water and sanitation sector in the country. Similarly, the World Bank's education interventions largely target the primary level, while ADB focuses on the secondary level. This indicates that some division of labor is practiced by development partners in Viet Nam. Development partners have made use of various coordination and consultation mechanisms in the past, but it is not clear how this has translated into the division of composition of their portfolios. Greater collaboration between ADB and other development partners is necessary to better support inclusive growth efforts in the country.

208. ADB's inclusive growth efforts in Viet Nam, particularly its emphasis on infrastructure, must be reexamined given the persistent and growing problem of ethnic minority poverty. In principle, rural infrastructure projects would benefit the ethnic poor by potentially increasing their access to basic services and other economic opportunities. However, improving rural infrastructure alone does not necessarily ensure that poverty will be reduced in areas where the ethnic minority poor are living.

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<sup>64</sup> The Ministry of Transport raised this issue during the study team's evaluation mission to Viet Nam.

For instance, of the 62 mountainous communes in Quang Nam Province, 43 have roads accessible by cars and 12 have access to the national electricity grid. Almost all communes have schools and health centers. However, literacy rates have remained unchanged and hunger is still a regular phenomenon.<sup>65</sup>

209. This indicates that addressing the remaining pockets of poverty in Viet Nam, particularly in ethnic minority communities, may need more direct interventions in improving human development outcomes. For instance, safety nets such as conditional cash transfers for the poor may be used to improve health and education outcomes and prevent extreme deprivation. However, ADB's forward program envisages an exit from pillar 3 projects in Viet Nam.

210. Overall, ADB's support to help achieve inclusive growth in Viet Nam is well attuned to the needs and developments across economic sectors in the country. The support can be made more relevant by complementing infrastructure interventions with schemes targeting human development outcomes for the poor and vulnerable who have been excluded from the growth process, as well as by further improving collaboration with other development partners.

## D. Tajikistan

### D.1 Country Context

211. Over the last decade, Tajikistan experienced rapid economic growth and reduction in poverty and inequality. The economy is fueled largely by remittances from migrant workers abroad, and the economic base remains narrow. As a percentage of GDP, remittances in Tajikistan constituted half of GDP in 2012.<sup>66</sup> The reliance on remittances makes economy vulnerable to external shocks.

212. The economy has grown rapidly over the last decade, though there has been some deceleration in recent years. The GDP growth rate reached 11.3% in 2003–2004, decreasing to 6.3% in 2007–2009. The decline was attributed to the 2008–2009 global financial crisis. Growth picked up afterwards, and the GDP growth rate reached about 7.5% in 2011–2012 (footnote 66). The proportion of the population living on \$1.25 or less a day decreased sharply from 35.4% in 2003 to 6.6% in 2009, while the share of the population living below the \$2-a-day poverty line dropped from 67.2% to 26.9%. Inequality measured by the Gini index decreased from 32.6 in 2003 to 30.8 in 2009. For government spending, transport comprised 13.4% of total state budget expenditure in 2005, which increased to 24.3% in 2007. Over the same period, education spending increased from 22.1% to 25.0%; health spending from 6.9% to 8.6%; and agriculture, fishing and hunting spending from 6.2% to 8.3%. Social insurance and protection spending decreased from 19.1% to 17.2%.<sup>67</sup>

213. Education and health outcomes are still poor. While Tajikistan has the second highest ratio of female-to-male education among youth in developing Asia—after Armenia's—the quality of basic education remains low. For instance, 54.6% of fourth grade students show satisfactory performance in mathematics and their native language, according to national assessment testing. In health, under-5 mortality rates

<sup>65</sup> ADB. 2002. *Indigenous Peoples/Ethnic Minorities and Poverty Reduction in Viet Nam*. Manila.

<sup>66</sup> World Bank Data. [www.worldbank.org](http://www.worldbank.org) (accessed 8 January 2013).

<sup>67</sup> World Bank. 2008. *Tajikistan Second Programmatic Public Expenditure Review Volume II: Technical Background Papers*. Washington, DC.

between urban and rural areas indicate wide disparities at 83 per 1,000 live births in rural areas compared to 70 in urban areas.

214. Although impressive, the country's growth rate depends greatly on the large contribution of its young migrant workers. Migration overseas originates mainly in the rural areas, as the average per capita income from abroad in rural areas shows TJS48.81, compared with TJS41.38 for Dushanbe, and TJS39.62 in other urban areas. To some extent, such transfers help reduce rural-urban disparities and income inequality in the country.

215. About 85% of these migrant workers are in the Russian Federation. Reliance on remittances therefore makes Tajikistan vulnerable to external shocks such as changes in oil prices and the booms and busts of the Russian economy. This reliance on the export of workers and its low investments in human capital diminish Tajikistan's long-term growth prospects. To make growth sustainable, the country needs investments in skills development, which will enable its population to make use of its abundant natural resources to advance its economy.

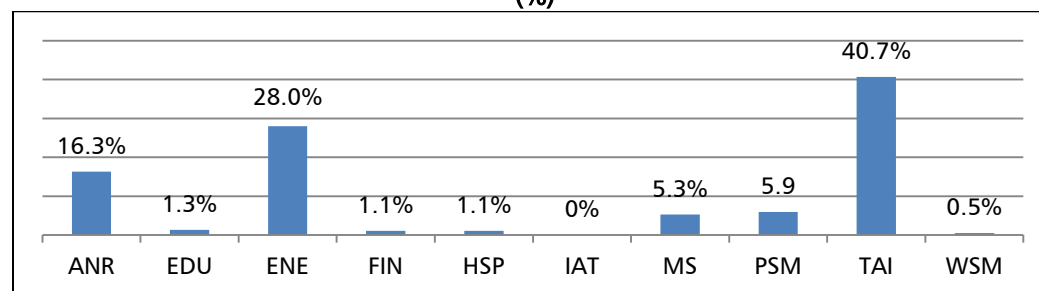
216. Gender development in Tajikistan needs to be improved. There is a lack of public sector jobs for women. Women's wages, on average, are less than half of men's. Alarming, girls are much less likely to complete secondary education than boys. Women constitute unutilized human capital and are often engaged in the informal sector or consigned to household work. Addressing gender issues must become an integral component of inclusive growth efforts in Tajikistan.

## D.2 ADB Support for Inclusive Growth in Tajikistan

217. Although remittances have spurred Tajikistan's growth, a reliance on the export of labor may hinder the long-term inclusiveness of the country's growth. While aggregate growth may be high, an economy fuelled by remittances suffers from low domestic productivity and low capacity to generate jobs, and is vulnerable to external shocks.

218. To help achieve inclusive growth in Tajikistan, ADB has focused largely on pillar 1 projects, which absorbed 73% of resources during 2000-2012. In contrast, only 23% were allocated for pillar 2 and 3% for pillar 3. Pillar 1 projects comprise mainly of investments in transport and ICT, and energy, which accounted for 40.7% and 28.0%, respectively, of ADB resources allocated during 2000–2012 (Figure 13).

**Figure 13: Share of ADB's Portfolio in Tajikistan by Sector, 2000–2012 (%)**



ANR = agriculture and natural resources; EDU = education; ENE = energy; FIN = finance; HSP = health and social protection; IAT = industry and trade; MS = multisector; PSM = public sector management; TAI = transport and ICT; WSM = water supply and other municipal infrastructure and services.

Source: Independent Evaluation Department staff estimates.

219. Investing in transport and ICT, and energy, is justified by the need to improve connectivity in landlocked Tajikistan to foster the mobility of goods and people. Better infrastructure networks improve logistics and lower transaction costs, thereby encouraging private investments, which in turn could provide much-needed employment opportunities. Better infrastructure networks can also promote access to basic services.

220. ADB has made notable contributions in improving Tajikistan's transport and energy sectors. More than 500 kilometers (kms) of roads have been built or upgraded in the country with ADB support, benefiting an estimated 1.5 million road users. ADB has also helped improve the country's key regional links including those along the Dushanbe–Karamik–Kyrgyz border (346 kms), the Dushanbe–Tursunzade–Uzbek border (57 kms), and the Ayni–Panjankent–Uzbek border. ADB has also upgraded 141 kms of transmission lines and helped link 21,600 new households to electricity.<sup>68</sup> However, the study cannot establish whether these transport, energy, and other infrastructure investments actually benefit lower-income groups.

221. For infrastructure investments to be inclusive, their connectivity with rural or other lagging areas plays a critical role. In Tajikistan, ADB attempts to utilize Japan Fund for Poverty Reduction (JFPR) grants to enhance the links between its large-scale infrastructure investments and rural communities. For instance, ADB's road project in the Dushanbe–Kyrgyz border was linked with a JFPR-backed rural road intervention, which focused on road development for 300,000 people living in the hinterlands of that road corridor. Similarly, a JFPR grant financed the construction of two hydro-power plants in rural areas that provided free electricity to schools, hospitals and the poor in project areas.

222. Interventions focused on rural areas are also crucial in realizing inclusive growth in the country context of Tajikistan. About three-fourths of the population resides in rural communities. Poverty is largely a rural phenomenon; more than 50% of the rural population in 2009 lived below the national poverty line.<sup>69</sup> However, only 13.9% of ADB's total infrastructure support in 2000–2012 was targeted toward rural areas.

223. Tajikistan's vulnerability to natural disasters may account for ADB's support for infrastructure in the country. ADB has in the past provided support for the rehabilitation of the country's infrastructure hit by natural disasters to help restore access to basic services and markets. The ADB-backed emergency flood rehabilitation scheme was rated *successful*. It restored key infrastructure to pre-disaster condition, which helped restore normal conditions in the country (Box 4).

224. ADB's focus on growth through pillar 1 interventions does not seem consistent with Tajikistan's persistent human development gaps. Since the country is performing well on the growth front, focusing further on pillar 1 may not be called for, since it will absorb funds that are much needed to improve access to opportunities and provision of safety nets.

225. The CPS for 2010–2014 recognizes the crucial gaps in human development and social protection, and discusses both the income and non-income dimensions of poverty and inequality in Tajikistan. It notes the insufficient progress being made on

<sup>68</sup>ADB. 2013. *Tajikistan Results of ADB Supported Operations*. [www.adb.org/countries/tajikistan/results](http://www.adb.org/countries/tajikistan/results) (as cited in forthcoming Country Assistance Program Evaluation for Tajikistan). Manila.

<sup>69</sup>ADB. 2012. *Key Indicators for Asia and the Pacific*. Manila.

MDGs, particularly on targets for health, HIV/AIDS, and access to water and sanitation in rural areas. It also highlights the economy's vulnerability created by the country's great dependence on remittances.

226. To prevent further deterioration in social development, the poverty analysis section of the CPS advocates improving social services, promoting education and skills training, and the scaling up of the safety nets for vulnerable groups such as the aged and unemployed. However, the findings in the CPS background documents are not properly reflected in the main CPS findings and recommendations. Nevertheless, the CPS describes the main challenges to Tajikistan as largely growth-oriented. These include (i) restoring macroeconomic stability and managing external debt sustainably; (ii) accelerating reforms, including those aimed at private sector development and governance; (iii) improving physical transport infrastructure and energy security; and (iv) expanding regional cooperation.

#### Box 4: The Emergency Flood Rehabilitation Project in Tajikistan

The 1999 Emergency Flood Rehabilitation Project was ADB's first disaster and emergency assistance to Tajikistan. It helped the government realize quick economic and social recovery by restoring infrastructure to pre-disaster condition.

As the country is highly vulnerable to landslides, earthquakes, avalanches, and other natural disasters, the destruction of infrastructure in the aftermath of these catastrophes disrupts economic activities and hampers the access of individuals to basic services. The project's 85 civil works have helped improve the quality of life in disaster-affected communities, with rehabilitation efforts restoring access to places of employment, markets, hospitals, and schools.

For instance, the restoration of a bridge in Canal Chubak, Hamadoni district enabled farmers from adjacent villages to transport their produce and school children to attend schools offering higher grade levels. However, concerns have emerged about the quality and sustainability of the project's infrastructure outputs. Of the 37 evaluated subprojects, about 43% were deemed poor in quality. Many infrastructure facilities were already in bad shape prior to disasters, requiring comprehensive reconstruction rather than restoration to pre-disaster conditions. The available loan resources may have been spread too thinly across too many subprojects. Focusing on a smaller number of subprojects would have improved project implementation and overall performance. The sustainability of the projects was also deemed less likely due to Tajikistan's weak infrastructure maintenance system.

By focusing its disaster and emergency assistance for Tajikistan on infrastructure rehabilitation, ADB took a long-term approach to reducing vulnerability to disaster. But the findings of the project evaluation suggest that emergency intervention should focus on transitional aid to address the urgent needs of the population, while infrastructure rehabilitation should be addressed using dedicated project loans.

Source: IED. 2007. *Performance Evaluation Report. Emergency Flood Rehabilitation Project in Tajikistan*. Manila: ADB.

227. In terms of operations, ADB moved out of the country's agriculture and social sectors, as stated in the CPS for 2010–2014 and in ADB's country strategy program for 2004–2008. Although this may be expedient given limited resources, exiting the agriculture and social sectors may undermine ADB's inclusive growth efforts in Tajikistan because (i) human development outcomes in health, education, and employment in the country are still lagging; and (ii) progress that has been made in the two sectors may be at risk of being discontinued instead of being scaled up and replicated.

228. This is particularly true of social protection. ADB tested and implemented two social safety net pilot projects as part of its policy-based lending in Tajikistan in the aftermath of the global financial crisis. These projects provided modest levels of skills training to the unemployed and supported more efficient ways of delivering public pensions by electronic means. ADB's Independent Evaluation has found that two pilot

projects performed better than a similar national program because a higher proportion of the poorest were covered and so most of the benefits accrued to the poor.<sup>70</sup> Moving away from social protection support despite earlier successes would have been counterproductive to inclusive growth efforts, especially given the vulnerability of Tajikistan's economy. These safety net projects are now being replicated by the World Bank.

229. ADB's withdrawal of support for agriculture leaves needed farm reforms undone, particularly in community-managed irrigation. ADB has helped rehabilitate irrigation facilities, which service about 17.5% of Tajikistan's irrigated land (footnote 70). Agriculture is important to attaining inclusive growth in Tajikistan. Food security is government's top priority, and about 75% of the population resides in rural areas. ADB's exit from the social sector, meanwhile, may leave its past efforts to help restructure basic health and education services unfinished. Support for technical and vocational education and skills development is particularly important to address Tajikistan's low capacity to generate jobs for 150,000 school leavers each year. While ADB is now processing a vocational and technical education project to relieve the shortage of skills, it needs to do more.

230. ADB's exit from agriculture and the social sectors leaves gaps in development support that need to be filled by other donors to help achieve inclusive growth. The scope for complementarities and harmonization between development partners in the country is essential to maximize development impact and achieve inclusive growth. Outputs of development partners in various sectors need to be effectively interconnected to foster a holistic approach to inclusive growth (e.g., World Bank-backed health centers or schools would need to be linked with ADB-funded roads). Donor coordination in Tajikistan has seen improvements in recent years. The establishment of the Donors Coordination Council in 2009 in which ADB has taken a lead role in coordinating the implementation of a joint country partnership strategy has helped synchronize external support and addressed sector policy and aid effectiveness issues. For its part, ADB participates in the joint CPS with major development partners in the country and undertakes joint country portfolio performance reviews. The operations of the two largest partners in Tajikistan—Russia and PRC—are governed by their bilateral relationships with the country. But their operations are less well known to other development partners, which usually share information with each other on an open-ended basis.

231. ADB can undertake interventions outside infrastructure that may advance the inclusive growth agenda. Support for industry and trade promotion also plays a crucial role in inclusive growth efforts in Tajikistan, but ADB support for this sector is limited.<sup>71</sup> Because the economic base remains narrow, support for industry and trade promotion could encourage manufacturing and other enterprises for generating job opportunities.

232. Gender development components are also crucial. Women generally have limited access to job opportunities in Tajikistan. ADB's Microfinance Systems Development Program contributed to gender equality, about 62% of the program's total microfinance loans went to female entrepreneurs (footnote 70). Nonetheless, ADB

<sup>70</sup> IED. Forthcoming. *Country Assistance Program Evaluation for Tajikistan*. Manila: ADB.

<sup>71</sup> In 2000–2012, ADB supported two regional trade facilitation projects: Regional Trade Facilitation and Customs Cooperation Program and Regional Customs Modernization and Infrastructure Development. Tajikistan was one of the countries covered under these projects, and the analysis of ADB's total portfolio in Chapter 4 covers these two projects in the trade and industry sector. However, they were not categorized in the country level analysis because disaggregating funds for Tajikistan and other countries was difficult.

support for gender equity is scanty, and the CPS for 2010–2014 takes a limited approach to gender mainstreaming.

233. Overall, ADB may need to go beyond supporting growth largely through infrastructure interventions to better promote inclusive growth. Notable gaps in human development and social protection in Tajikistan, particularly in education and health, employment in the domestic labor market, and on gender issues, demand greater ADB support. Complementing infrastructure interventions with adequate support for human development and social protection is important for realizing inclusive growth in Tajikistan.

## **E. Mongolia**

### **E.1 Country Context**

234. Mongolia's economic growth cannot be deemed inclusive. The government's pursuit of inclusive growth is hindered by the country's narrow economic base, which has fostered spatial inequities, imbalance in sectoral growth, and unequal access to opportunities, particularly in employment. Expansion of the mining industry has resulted in an impressive pace of overall growth, but excessive reliance on this sector and the pattern of this growth leave about one-third of its population vulnerable to economic shocks and dampen growth's impact on reducing poverty and enhancing equity.

235. Mongolia economy grew at an average 8% since 2003 and peaked in 2011 at 17.3%. This rapid growth has not, however, entirely quelled persisting issues of poverty and inequality. The overall percentage of the population trapped in poverty decreased from 38.7% in 2010 to 27.4% in 2012, according to estimates of the National Statistics Office of Mongolia. However, this masks disparities in poverty incidence between regions and rural and urban areas. Poverty remains entrenched in rural areas, and the Western and Highland regions.

236. Disparities in income and consumption also exist between the capital, Ulaanbaatar, and the rest of the country. Average per capita consumption in the countryside declined to less than 60% of the average in Ulaanbaatar in 2007–2008 and was only 75% of the average nation-wide. Non-income inequality is also high between regions. For instance, 36.9% of the population in Ulaanbaatar had access to indoor sanitation facilities in 2011, compared with only 3.8% in the Western region.

237. Structural imbalances, weak employment elasticity, and vulnerabilities to shocks have reduced the effectiveness of growth in reducing poverty and inequality. The mining and agriculture sectors are the main engines of the country's growth. In 2012, mining accounted for 20% of Mongolia's GDP and 85% of its exports. Agriculture contributed 17% of the GDP. However, the contribution of these sectors to aggregate growth is disproportionate to their contribution to productive employment. Only 100,000 jobs were created by growth in the mining sector in 2003–2007—catering to roughly only half of the 200,000 new entrants in the labor force in the same period. Trade, tourism, and construction accounted for 68% of employment, but contributed less than 6% to the increase in GDP.

238. Underinvestment in infrastructure, particularly transport and energy, undermines the competitiveness of Mongolia's economy and induces inequities in access to opportunities. In terms of government spending, transport and



communication comprised 2.1% of total expenditure in 2000 but decreased to 1.6% in 2012. Mongolia's road density is among Asia's lowest at 0.04 kilometers (km) per square km of area. Only 6,500 km of its 49,000 km road network are engineered roads, and 60% of these are in poor condition. In energy, 92% of power needs are met through generally inefficient, coal-fired plants. Annual power outages increased fortyfold during 2006-2010. Meanwhile, education spending also decreased, from 19.1% of central government spending in 2000 to 4.6% in 2012. Over the same period, health spending decreased from 10.7% to 7.1% of the overall expenditures, spending on agriculture from 1.9% to 1.8%, and industry spending from 0.37% to 0.13%. The proportion spent on social security and welfare increased greatly during these years from 17.7% to 36.8% (footnote 20).

239. An influx of rural households to Ulaanbaatar worsened poverty. A large number of herders flowed into the capital city area in the aftermath of devastation caused to livestock and livelihoods by three severe *dzuds*,<sup>72</sup> which have increased poverty in rural herder communities. The migration coincided with the rise of the capital-intensive mining sector and a lack of the skill-building opportunities necessary to help these households in transition to urban areas.

## E.2 ADB Support for Inclusive Growth in Mongolia

240. Support to sustain growth through connectivity forms the crux of ADB's inclusive growth agenda in Mongolia. This support leans heavily toward pillar 1 projects, but also contains strong elements under pillars 2 and 3—building access to opportunities and social protection.

241. At the strategic level, ADB's country documents have highlighted the non-inclusiveness of Mongolia's growth—discussing both income and non-income dimensions of poverty and employment generation issues. Obstacles to inclusive growth were identified, including structural imbalances that lead to jobless economic growth, difficult access to finance (particularly for small and medium-sized enterprises), the vulnerabilities of specific segments of the population, regional disparities, other inequities in access to economic opportunity and public services, and a mismatch between education and the labor market.

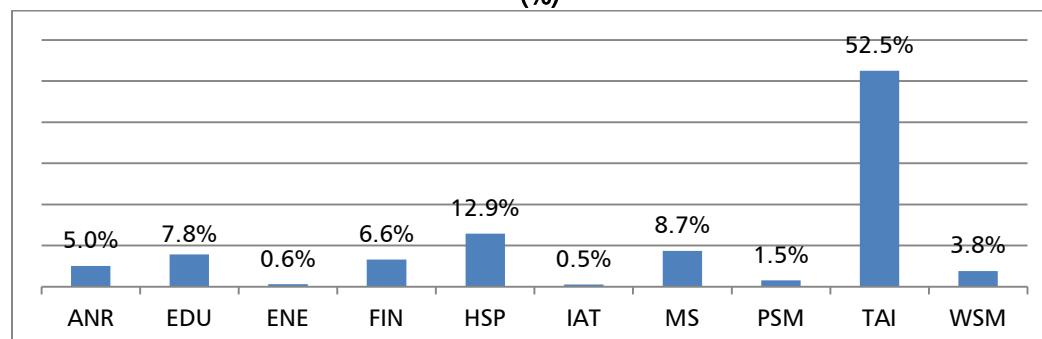
242. ADB's mix of operational activities for inclusive growth in Mongolia is strongly aimed at growth, although it does include support for access to opportunities and social protection. During 2000–2012, about 59% of ADB's resources were allocated for pillar 1, 27% for pillar 2, and 14% for pillar 3. To help make growth inclusive in Mongolia, ADB's primary approach is to improve connectivity. More than half of its resources accrued to investments in transport and ICT during 2000–2012 (Figure 14). Since 2008, ADB support for transport investments in Mongolia has quadrupled.

243. In the broader context of realizing inclusive growth, better transport infrastructure will help lower transaction costs to spur private investments and provide physical access to facilities to address inequities. How well infrastructure helps reduce inequities largely depends on how well it links lower-income groups with the growth process. In Mongolia, the majority of ADB's infrastructure interventions are in urban areas. Only 17.2% of ADB's total infrastructure support for Mongolia in 2000–2012 is located in rural parts of the country. This may be because nearly 60% of Ulaanbaatar's

<sup>72</sup> *dzud* is a Mongolian term for a severe winter in which large number of livestock die, primarily due to starvation due to being unable to graze, in other cases directly from the cold.

population lives in the periurban *ger* areas, so-named because many of the rural migrants who mainly inhabit them are housed in Mongolia's traditional round tents, or *gers*. These areas have virtually no access to basic municipal services or investments in basic infrastructure, a gap that several ADB interventions have sought to help fill.

**Figure 14: Share of ADB's Portfolio in Mongolia by Sector, 2000–2012 (%)**



ANR = agriculture and natural resources; EDU = education; ENE = energy; FIN = finance; HSP = health and social protection; IAT = industry and trade; MS = multisector; PSM = public sector management; TAI = transport and ICT; WSM = water supply and other municipal infrastructure and services.

Source: Independent Evaluation Department staff estimates.

244. On the other hand, ADB support for energy has been limited in both number and amount of projects—accounting for only 0.6% of ADB resources allotted during 2000–2012 (Figure 14). Improvements in energy security are undeniably crucial in the effort to diversify Mongolia's economy and would help improve production and encourage further investments. Mongolia continues to face power supply challenges. Demand for electricity is expected to double from 570 megawatts in 2005 to 1,099 megawatt in 2014.

245. ADB's limited engagement in energy may be attributed to the contributions of Mongolia's other development partners, including the World Bank, the United States Agency for International Development, and Deutsche Gesellschaft für Internationale Zusammenarbeit to energy interventions. The development partner community in Mongolia is extensive, and coordination in such areas as energy, education, and gender is provided through forums. The education and gender forums are chaired by ADB. This coordination is challenged, however, by the government's preference to working independently with each development partner and by the development partners' lack of necessary in-country resources for consistent policy dialogue, knowledge sharing, and outreach with one another. Greater harmonization of development partner support will also require stronger and more consistent leadership from the government.

246. While infrastructure interventions can quickly improve connectivity and logistics, their impact on employment generation is less direct and immediate. The adverse implications of Mongolia's narrow economic base are most felt by the country's households in the form of limited employment opportunities. This means that investments that can directly generate equitable job opportunities are necessary to realize inclusive growth in the country. Labor-intensive infrastructure projects may provide short-term job opportunities, but the creation of productive employment depends on how such infrastructure projects can help attract private investments, an effect that may occur over the long run.

247. Support for the industry and trade sector to help create a diverse manufacturing and trade environment is an effective approach to productive employment generation. Such support could help Mongolia foster industrial development and reduce its reliance on the mining sector. ADB allocated only 0.5% of its resources during 2000–2012 to industry and trade promotion in the country. While infrastructure investments can facilitate trade through better logistics, ADB can take a more active role in promoting industry and trade in Mongolia. It could help the government explore measures to bolster the manufacturing sector, such as tax holidays and tax concessions, the establishment of export processing zones, dialogue with the private sector to identify bottlenecks and other obstacles to private investments, and the strengthening of small and medium-sized enterprises.

248. Projects in support of skills development and technical and vocational education could also improve Mongolia's capacity to absorb workers into productive employment. The CPS for 2012–2016 indicates that ADB is repositioning its education portfolio toward technical and vocational education, secondary education, and higher education reform.

249. To reduce the vulnerabilities of Mongolia's disadvantaged groups, ADB is supporting social protection instruments. Health and social protection received the second largest share of ADB's support during 2000–2012, at 13%. Its support for the sector has risen substantially—by \$41 million since 2008. ADB has financed reforms in Mongolia to help give the poor and the vulnerable better access to health services. The program promoted the provision of primary health care and was rated *successful* (Box 5).

#### Box 5: Health Sector Development Plan in Mongolia

The Asian Development Bank's Health Sector Development Plan Program supported health reforms in Mongolia, developed a system of family group practice (FGP), and improved district hospitals in Ulaanbaatar.

Improving access for the poor and vulnerable to health services is crucial to promoting the inclusiveness of the growth process. It improves the productivity and employment prospects for people in both of these groups. At least 60% of the country's population was registered with the FGP in 2002. The poor made up the majority of its clients, including residents of rural areas and the periurban districts around the capital where many poor rural migrants have settled. Clients include the unemployed, low-paid workers, and retired people. For most of the urban poor, FGP is the main, if not the only, source of health care. The project also helped to identify and include mothers, children under 5 years, the elderly, adolescents, and other vulnerable groups under the Health Insurance Law.

The program's focus on these vulnerable groups has contributed to an enabling environment for Mongolia to achieve health-related Millennium Development Goals. The health reforms supported by the program have contributed to an increase in the proportion of pregnant women under medical observation, as well as to lower child and maternal mortality rates and a reduced number of unwanted pregnancies.

On the infrastructure front, the project supported civil works and rehabilitation of some hospitals and provided health care equipment. The number of hospital beds was reduced to 7.5 per 1,000 population in 2002 as part of the project. It also provided training on primary health care provision to 1,300 doctors and nurses.

While the program has made efforts to improve the access of vulnerable groups to primary health care, its impact on rural populations outside provincial centers has not been maximized. Poor transport and communication networks in rural areas have isolated rural groups outside provincial centers, making it difficult for them to access health services, particularly higher-level health care. District hospitals cannot function solely as primary health care centers in remote areas where no other care is available, but with their limited budgets, equipment, and personnel, they also cannot provide good quality higher-level health care. District hospitals in isolated areas will need assistance to achieve this.

Most equipment provided under the program was underutilized or became nonfunctional due to the lack of skilled personnel to handle it and difficulty in operation and maintenance. The training on primary health care provided to doctors and nurses was also limited, and no follow up training was conducted to help keep health professionals up to date with new techniques and methods.

Source: IED. 2008. *Performance Evaluation Report: Health Sector Development Plan Program in Mongolia*. Manila: ADB.

250. ADB has also helped social protection programs provide immediate relief to households against economic shocks. The impact of such programs is contingent on proper targeting and the amount of transfers provided. An ADB-backed food stamps program in Mongolia is targeted using a proxy means test system. The program provides food stamps by electronic means to the lowest quintile of the population.

251. Despite a significantly increased allocation of ADB resources to health and social protection in Mongolia since the adoption of Strategy 2020, the value of support for pillar 3 projects is lower than for pillars 1 and 2. This level of ADB's support may not be sufficient, given the country's total needs. Support of \$140 million (or approximately 233 billion togrog [MNT]) is only a small portion of the overall government spending on social protection transfers (approximately MNT2.2 trillion).<sup>73</sup> This level of contribution is therefore unlikely to yield a significant impact on greater equity and inclusion in Mongolia, while the government may already have a big impact on health and social protection outcomes.

252. Overall, ADB's support for inclusive growth in Mongolia is relevant to the urgent needs for infrastructure development and provision of social protection. Nonetheless, the connectivity of infrastructure with the poorer areas needs greater attention. To help include more of Mongolia's lower-income people and other vulnerable groups in the country's growth, greater investments in skills development and industry and trade promotion are necessary. Such investments are likely to impact employment generation and the absorption of the labor force into the labor market.

## F. Papua New Guinea

### F.1 Country Context

253. Papua New Guinea's growth process cannot be deemed inclusive. The country's robust macroeconomic performance is not being translated into improvements in living standards or reductions in poverty and inequality. Despite its healthy macroeconomic gains, Papua New Guinea remains mired in poverty and inequality in both their income and non-income dimensions.

254. The country's real GDP grew at an average annual rate of 6% over the last decade and expanded by 8% in 2012. This spike in growth was largely due to a \$19 billion liquefied natural gas project that has spurred domestic demand for goods and services since its construction in 2009. The mining and agriculture sectors dominate the economy. Less than 15% of the population is engaged in mining activities and the rest in subsistence and semi-subsistence agriculture. The country's employment-to-population ratio stood at 54.6% in 2011, but employment opportunities are primarily concentrated in the agriculture sector. As of 2000, about 72% of employment was in the farm sector, compared with only 3.6% in industry.<sup>74</sup> Education spending accounted for 16.4% of total central government expenditures in 2000 before decreasing to 10.0% in 2002. During the same period, health spending increased from 5.2% to 5.7%, and social security and welfare spending decreased from 1.7% to 1.5%.<sup>75</sup>

<sup>73</sup> Government of Mongolia, Ministry of Finance. 2013. *Annual Budget*. Ulaanbaatar.

<sup>74</sup> World Bank Data. <http://data.worldbank.org/> (retrieved 20 December 2013).

<sup>75</sup> Latest available data is for 2002. There is no data for agriculture and transport and communication spending for 2000–2002. See ADB. 2013. *Key Indicators for Asia and the Pacific*. Manila.

255. Despite rapid overall economic expansion, the benefits of growth do not appear to be equitably available to all. Despite periods of exceptional growth, the headcount poverty ratio worsened during 1996–2010 from 37.7% to 39.9%, and the proportion of stunted children 5 years of age or less rose from 37% to 43%. Inequality has also been rising. The Gini index for per capita consumption increased from 44% in 1996 to 54% in 2009–2010. The share of total income enjoyed by the top quintile expanded, while the share of the bottom quintile declined, indicating that growth has been neither pro-poor nor inclusive.

256. Inequality also manifests itself in disparities in access to opportunities. For instance, 26% of the respondents of the 2009–2010 household income and expenditure survey indicate that they travel more than 30 minutes to reach the nearest health care facility, and 54% of these respondents walk.

257. Inadequate infrastructure development is the most binding constraint on inclusive growth in Papua New Guinea, hindering poverty reduction and equitable access to opportunities. Poverty is twice as high in households located more than 1 hour from a road. Poverty levels also sharply increase when the nearest school is more than 1 hour away. A 1-hour increase in travelling time reduces average consumption in a household by 10%. The regions of the country with the lowest level of educational attainment and the highest proportion of people who never attended school are also those with the poorest access to roads, namely the Momase/North Coast region and the Highlands.<sup>76</sup> Improvements in transport networks play a critical role, particularly the Highlands region, by linking remote communities with services and markets to help increase incomes and reduce poverty.<sup>77</sup>

258. Health outcomes have improved nationally but remain uneven. The country's infant mortality rate per 1,000 live births decreased from 69 deaths in 1996 to 57 in 2006, while the child mortality rate per 1,000 live births decreased from 25 deaths to 19. Health outcomes differ substantially between regions, however. For instance, the infant mortality rate per 1,000 live births in rural areas was 62 deaths in 2006, compared with 31 in urban areas; and 72 in the Highlands, compared with 45 in Papua. Access to health services can also be unequal between rural and urban areas. During 1996–2006, the percentage of children fully immunized rose from about 32% to about 50% in rural areas, while slightly decreasing from about 70% to about 64% in urban areas.<sup>78</sup>

259. Disparities in health outcomes may be triggered by poor access to safe water and sanitation facilities. During 1990–2012, the percentage of Papua New Guinea's population with access to improved sanitation facilities decreased from 20.2% to 18.7%. The percentage for the rural population increased from 12.9% to 13.3% during the period but remained much lower than that in urban areas, where 56.7% of the population had access to such services in 2012, down from 61.6% in 1990. The percentage of the population with access to an improved water source increased from 33.4% to 40.2% during 1990–2012 (footnote 74).

<sup>76</sup> Gibson, J. and Rozelle, S. 2003. Poverty and Access to Roads in Papua New Guinea. *Economic Development and Cultural Change*. pp. 52, 159–185.

<sup>77</sup> de Albuquerque, K., and E. D'Sa 1986 Spatial Inequalities in Papua New Guinea: A District Level Analysis. Port Moresby, Papua New Guinea: Institute of Applied Social and Economic Research Discussion Paper No. 49; Copus-Campbell, S. and Hayward-Jones, J. 2009. *Tackling Extreme Poverty in Papua New Guinea*. Lowy Institute; Australia National University and Care International. 2009. *Rural Poverty in Remote Papua New Guinea: Case Study of Obura-Wonenara District*.

<sup>78</sup> ADB. 2012. Country Diagnostics Study. *Papua New Guinea: Critical Development Constraints*. Manila.

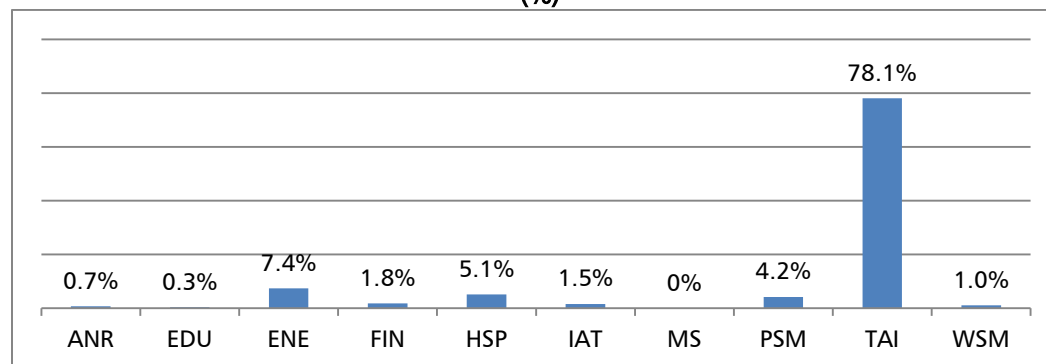
260. Papua New Guinea's literacy rate—60.6% in 2010—is among the lowest in the region, and rates vary widely across geographical groups and gender within the country. Illiteracy is especially high in rural communities and the Highlands and Momase regions. Women are more likely than men to have no education. Lack of physical infrastructure and well-trained teachers and the financial inability of households to send children to school are factors contributing to the inequitable access to education services in the country. In addition, given the lack of productive employment prospects, parents often perceive few incentives to invest in their children's education.<sup>79</sup>

## F.2 ADB Support for Inclusive Growth in Papua New Guinea

261. ADB's inclusive growth agenda for Papua New Guinea leans toward infrastructure to improve service provision and market access in rural communities. ADB interventions aim to make Papua New Guinea's growth more inclusive by generating livelihood opportunities and enhancing access to basic services in rural areas. ADB identifies poor infrastructure, weak governance, a shortage of skilled labor, and unequal access to quality of health and education services as constraints to inclusive growth in the country.

262. About 60% of ADB resources for Papua New Guinea in 2000–2012 were earmarked for pillar 1 projects, with 39% falling under pillar 2 and 2% under pillar 3. Pillar 1 projects largely consist of infrastructure initiatives in the transport and ICT sector and energy. By amount during 2000–2012, about 78.1% ADB interventions were transport and ICT (Figure 15). Energy projects were allotted the second largest share, at 7.4%.

**Figure 15: Share of ADB's Portfolio in Papua New Guinea by Sector, 2000–2012 (%)**



ANR = agriculture and natural resources; EDU = education; ENE = energy; FIN = finance; HSP = health and social protection; IAT = industry and trade; MS = multisector; PSM = public sector management; TAI = transport and ICT; WSM = water supply and other municipal infrastructure and services.

Source: Independent Evaluation Department staff estimates.

263. Of the transport and ICT projects, six worth nearly 30% of the sector's allocation were classified under pillar 2 due to their potentially high rural impact. Two energy projects were also classified under pillar 2 because they are related to rural electrification.

<sup>79</sup> ADB. 2012. Country Diagnostics Study. *Papua New Guinea: Critical Development Constraints*. Manila.

264. The emphasis on infrastructure interventions in Papua New Guinea is warranted. This is because poor infrastructure networks greatly hinder access to basic services and markets in the country. ADB's focus on infrastructure, as well as on public sector management, also reflects the government's desire to concentrate on these sectors. To further bolster the potential benefits of infrastructure interventions on inclusive growth in Papua New Guinea, ADB could consider scaling up its support for infrastructure development in rural areas where about 87% of the population lives. About 17.3% of total ADB resources for infrastructure in 2000–2012 were allocated for infrastructure interventions in rural areas.

265. ADB's investments in public sector management, agriculture, and human capital development, although limited, are also crucial in promoting inclusive growth in Papua New Guinea. Public sector management projects, which accounted for 4.2% of ADB support in the country during 2000–2012, will likely improve the fiscal environment and will help the government better identify priority policies and investments that make growth more inclusive. ADB allocated only 0.7% of resources in Papua New Guinea during 2000–2012 to agriculture. Despite the small portion, ADB has helped improve the farm sector, piloting a project on providing agricultural support services to smallholder farmers. The project was rated *successful* and raised farm productivity, particularly in smallholder farming (Box 6).

#### Box 6: Smallholder Support Services Pilot Project in Papua New Guinea

The Asian Development Bank's Smallholder Support Services Pilot Project in Papua New Guinea sought to give smallholder farmers greater access to agricultural support services in the Eastern Highlands and Morobe.

In a country where agriculture is the main source of household livelihood and income for 70% of the population, improving farm productivity is a key to ensuring the inclusiveness of the growth process. The project helped to address the critical need to provide skills training and other farm support services to farmers to help bolster farm productivity. Decentralized farm services in Papua New Guinea have led to limited government funding for agricultural extension services. With smallholder cultivation the predominant mode of farming in Papua New Guinea—concentrated on about one-fourth of the total land mass—the project's focus on smallholder farmers is likely to have contributed to greater agricultural productivity and, consequently, to greater income for households relying on farming for their livelihoods.

Overall, the training provided enabled farmers to expand and diversify their activities. Apart from product training, the project also provided financial management training, which helped farmers promote commercial orientation in their products. Although only 52% of the targeted households were reached, the targeted 30% participation for women was achieved—33% in Eastern Highlands and 37% in Morobe.

An evaluation report found that the satisfaction levels for the training provided were high, but implementation of the techniques taught was hampered by the farmers' lack of capital. The adoption rate was estimated at more than 20%—comparable with other training-only interventions for economic activities—which further improved upon the provision of follow-up support and coaching from the Department of Agriculture and Livestock. No mechanism for replicating and scaling up the lessons and knowledge generated in this pilot project has been identified. In addition, the full project design documents did not provide sufficient guidance on how the pilot project should be implemented.

Source: IED. 2013. *Performance Evaluation Report. Smallholder Support Services Pilot Project in Papua New Guinea*. Manila: ADB.

266. Only 0.3% of ADB's support during the period went to education, and 5.1% went to health. Its limited engagement in these areas appears to run contrary to its identification in the CPS for 2011–2015 of unequal access to health and education services as constraints to inclusive growth. Support for technical and vocational education may help address the shortage of skilled labor in the country, which can help promote inclusive growth

267. However, ADB's low level of engagement in human capital investments in Papua New Guinea may be explained by the presence of other development partners in the country's health and education sectors. These include AusAID, which supports education. ADB is also working with other partners through cofinancing arrangements to help fill the gaps in human capital development assistance in Papua New Guinea. By the end of 2012, official cofinancing for Papua New Guinea amounted to \$120.1 million for 14 investment projects, and \$5.9 million for 11 technical assistance projects. ADB has successfully attracted bilateral support from Australia and New Zealand to cofinance its health and private sector development interventions. In fact, without cofinancing from AusAID, ADB support for health would be minimal.

268. Further development partner coordination may help support social protection, an area from which ADB plans an exit under its CPS for 2011–2015. It is often argued that informal safety nets in Papua New Guinea compensate for the government's inadequate provision of safety nets, thereby preventing destitution. However, traditional safety nets benefit only those living within their clans and tribes. Migrants and their siblings detached from their extended families are left unprotected. Given the extent of poverty and inequality in the country, social safety nets are critically needed to reduce the vulnerability of disadvantaged groups. The World Bank has a social protection team working with the government in Port Moresby. ADB could partner with the World Bank to address the social protection gaps. Working with other development partners in health, education, and social protection can expand ADB's support for and impact on inclusive growth without necessarily increasing the implementation burden on the resident mission or diluting its sector focus.

269. Overall, ADB support for inclusive growth in Papua New Guinea is centered on infrastructure, but the impact of these infrastructure interventions on inclusive growth is yet to be demonstrated. Poverty and inequality persist. To better achieve inclusive growth, infrastructure investments should be explicitly linked with basic services and markets, as one way of reaching lower-income groups. ADB can also scale up its coordination and cooperation with other development partners, particularly in social protection to ensure that the gaps in human capital development investments it leaves are adequately filled.

## **G. Summary**

270. The findings of the six country case studies indicate that challenges to and opportunities for achieving inclusive growth vary across economies. This means that to realize maximum impact ADB's support for inclusive growth must be tailored to the specific needs of individual DMCs.

271. The bulk of ADB support for inclusive growth was channeled through projects supporting pillar 1 in all six countries—i.e., aimed at sustaining rapid growth. Support for rapid growth is undoubtedly crucial in improving living standards and generating economic opportunities. Investments in pillars 2 and 3 were also evident, albeit on a smaller scale. Despite comparatively limited investments in the pillars for improving access to opportunities and providing safety nets, positive results have been observed from these interventions. For instance, ADB's pilot social protection projects in Tajikistan were found to benefit the poor and a high proportion of the poorest were covered. ADB's technical and vocational education support for Viet Nam was found to be relevant to the country's labor market challenges as it transitions into a market economy.



272. Except in the Philippines, pillar 1 projects in all case study countries were largely infrastructure interventions aimed at achieving higher and sustained economic growth. The inclusiveness of infrastructure interventions depends on whether they connect lower-income groups to basic services and markets to enable them to access employment, education, health care, and other opportunities. This study noted that investments in pillar 1 projects outside infrastructure can also help promote inclusive growth in certain countries. In the Philippines, pillar 1 projects consisted mainly of public sector management interventions. This was due to the country's weak macroeconomic fundamentals and demonstrated ADB's efforts to tailor its inclusive growth portfolio to domestic needs. On the other hand, while adequate support for industry and trade may help address the narrow economic base in Mongolia and Papua New Guinea—both reliant on mining industries—ADB's support for such efforts in these two countries is limited.

273. ADB's support for inclusive growth can be made more relevant to the needs of countries by ensuring that investments in pillar 1 are complemented by adequate support for pillars 2 and 3 to improve access to opportunities and provide safety nets. ADB's large investments in pillar 1 are limiting support under these two pillars, however. The gaps can be addressed by further bolstering ADB's synergies with other development partners. The choice of priority areas for ADB interventions may need to be determined at the country level to ensure that the mix is well attuned to each country's particular inclusive growth challenges. They naturally vary from one country to another.

## CHAPTER 6

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# Conclusions and Recommendations

### A. Conclusions

274. The push for inclusive growth emerged from a consensus, recognized in Strategy 2020, that growth alone is not sufficient to improve welfare and that the pattern of growth and its pace are important to enhancing well-being.

275. Stellar economic growth in Asia and the Pacific has not been fully converted into improvements in living standards. This is indicated by the fact that the household consumption rate has grown at a slower pace than GDP. This study also found that growth was a major driver of significant poverty reduction in Asia and the Pacific over the last two decades. However, the region remains home to a majority of the world's absolute poor.

276. High aggregate growth has been accompanied by rising income inequality. Urban–rural disparities are a major facet of unequal income distribution in Asia and the Pacific. Rising income inequality co-exists with disparities in opportunities. The region has fared better in providing access to basic education, but improving access to opportunities for employment, health, and water and sanitation has lagged.

277. Under Strategy 2020, ADB in 2008 adopted its inclusive growth agenda with three pillars: (i) high, sustainable growth that creates and expands economic opportunities; (ii) broader access to these opportunities; and (iii) social safety nets to prevent extreme deprivation. With poverty reduction still ADB's overarching objective, inclusive growth is thus viewed as a strategy for achieving poverty reduction. As such, ADB implicitly considers other social objectives such as inequality reduction as either instruments of poverty reduction or coterminous with them. However, equality has intrinsic value and could be a separate social objective.

278. Strategy 2020's core and noncore areas of operations shape how ADB supports inclusive growth. ADB seeks to utilize 80% of its operations in core areas, including infrastructure, environment, regional cooperation and integration, finance sector development, and education. In contrast, agriculture, health, and disaster and emergency assistance are deemed noncore areas in which ADB operates on a limited scale. Because constraints to inclusive growth vary across countries, sector priorities may be revisited.

279. At the corporate level, ADB-wide allocation of resources leans far more heavily on pillar 1. Using ADB's project classification system, the study found that during 2000–2012 about 59% of ADB's total financing, or \$81.51 billion, was channeled toward pillar 1 projects, 30% to pillar 2, and 10% to pillar 3. Counting only stand-alone

social protection activities, and excluding crisis support to countries, the share of pillar 3 is just 1% of ADB's 2000–2012 portfolio. Similarly, targeted interventions declined during 2000–2012.

280. The classification of projects under the three pillars is simply ex-ante categorization of projects and does not necessarily ensure the achievement of inclusive growth outcomes. What is important is that every pillar promotes inclusive growth through sound diagnostics in CPSs and project designs that pay special attention to benefiting lower-income groups relatively more. ADB's March 2013 staff guidelines on inclusive growth call for progress in all three pillars, but do not offer guidance on project design.

281. Pillar 1 projects, 70% of which are composed of infrastructure interventions, can better support inclusive growth if their project designs pay special attention to benefiting lower-income groups. Infrastructure projects under pillar 1 are not automatically assumed to promote inclusiveness; for this to happen, they require complementary interventions and must benefit lower-income groups. Achieving inclusiveness in pillar 2 projects requires sufficient examination during project design of the need for more equity in access to opportunities. Pillar 2 projects need both to provide and ensure equity in access to basic services so that they are made available to lower-income and other vulnerable groups. A proper targeting system is a critical element of the inclusiveness of pillar 3 projects. This is because it prevents leakage and inclusion and exclusion errors in selecting beneficiaries, thereby ensuring that more resources reach lower-income and other vulnerable groups.

282. Given increasing inequality and fast economic growth in many countries, the focus on pillar 1 projects, which is also apparent in the six case study countries, needs to be seriously reconsidered. The shares of ADB resources earmarked in 2000–2012 for pillar 1 interventions in these six countries ranged from a low of 51% in Bangladesh to a high of 73% in Tajikistan. The resources allocated for pillars 2 and 3 have often been very small as a result. Their shares during this period in the six countries ranged from 18% in the Philippines to 39% in Papua New Guinea for pillar 2, and from 2% in Papua New Guinea to 26% in the Philippines for pillar 3.

283. In identifying constraints to and progress toward inclusive growth in CPSs, the prospects for rapid growth are adequately discussed, but analysis on improving access to opportunities and providing safety nets is often limited. Although addressing constraints to rapid growth will, in theory, help improve access to opportunities, the CPSs examined for this study did not usually discuss this link in a clear, explicit manner.

284. Except for the Philippines, the bulk of pillar 1 projects in the six case study countries were infrastructure investments. About 57% of ADB's total resources in 2000–2012 were channeled to infrastructure interventions, and infrastructure's share has been increasing in recent years. The impact of infrastructure investments on inclusive growth hinges on their project designs in such a way that they benefit lower-income groups. ADB could scale up its support for infrastructure interventions in rural areas, since this is where a majority of the poor often reside. Of ADB's infrastructure interventions during 2000–2012, only 14% were targeted in rural areas.

285. Energy and transport and ICT often received the largest shares of ADB resources in the six case study countries during 2000–2012. In some of these countries, interventions outside infrastructure can also be scaled up to achieve inclusive growth. For instance, if properly designed, investments in industry and trade could help widen

the narrow economic base in Papua New Guinea and Mongolia. ADB provided limited support for industry and trade in Mongolia during the study period, and investments in this sector made up only slightly more than 1% of ADB's support for the five other countries. Technical and vocational education support could help make labor skills relevant to the needs in the labor markets of DMCs, while agriculture support could help boost farm productivity, particularly in rural areas, which are home to a great proportion of the poor.

286. Selectivity in choosing its areas of operations is important if ADB is to maximize the impact of its limited resources on the inclusive growth agenda. Its selection of key areas in which to operate in a country is partly influenced by the existing activities of other development partners in the DMC.

## B. Recommendations

287. The following recommendations have emerged from the evaluation study's findings:

- (i) A simultaneous focus on poverty and inequality is necessary in ADB's inclusive growth framework, given the region's changing socioeconomic landscape. Strategy 2020 was formulated at a time of optimism about the region's progress on poverty reduction. However, growth and poverty trends in Asia could be affected by the lingering effects of the global financial crisis, and more recently the repercussions of the tapering of monetary quantity easing policies in the United States and gloomy growth prospects of European economies following the Eurozone crisis of 2009. Inequality is also rising in many countries, leaving the poor and other marginalized groups more vulnerable.
- (ii) By resource allocation, ADB support for inclusive growth is heavily skewed toward pillar 1. About 59% of total financing in 2000–2012 was aimed at pillar 1, 30% at pillar 2, and 10% at pillar 3. Counting only stand-alone social protection activities, and excluding crisis support to countries, the share for pillar 3 amounts to only 1%. Adequate support across pillars, which is also called for by ADB's staff guidelines on inclusive growth issued in March 2013, is crucial for promoting inclusive growth. The relative emphasis between the three pillars needs to be determined based on specific country needs.

Ex-ante categorization of projects aimed at supporting inclusive growth cannot guarantee that inclusive growth outcomes will be achieved. What is more important is to ensure that each pillar promotes inclusiveness by incorporating inclusion objectives in the project designs.

Projects falling under pillar 1 and geared toward promoting high growth can contribute to inclusive growth if their project designs pay special attention to benefiting lower-income groups. This does not imply that every project under pillar 1 should focus on lower-income groups. Although infrastructure investments cannot automatically be assumed to promote inclusive growth, infrastructure projects that foster connectivity between poorer and better-off regions or areas may

be deemed inclusive because they play an important role in creating economic opportunities for lower-income groups. Simply building rural roads will not help much in promoting inclusive growth. Rural roads need to be connected to urban centers and markets where the households and individuals belonging to the lower-income groups can access employment and economic opportunities.

The design of projects under pillar 2 should involve an analysis of equity of opportunities such as education, health care, and employment in the project area. Such analysis helps identify disparities in the distribution of basic services across the population and provides the basis for a project to go beyond simply providing basic services to ensuring equitable access by all to these services. The design of projects under pillar 3 should employ proper targeting of beneficiaries to prevent leakage and exclusion and inclusion errors and thereby ensure that resources are maximized in the provision of safety nets.

Discussion of an ADB project and its detailed design are provided in the Report and Recommendation of the President (RRP). Project design is the key to implementing ADB's inclusive growth agenda. Project outputs and outcomes should be clearly defined. Achievement of inclusive growth depends on what outcomes the project ultimately realizes. Although RRP's specify and discuss a project's intended outputs and outcomes, they lack analysis on linking outputs with outcomes. While all RRP's must state the project's intended outcomes, the targets and indicators provided in the RRP's design and monitoring framework to measure the actual achievement of project outcomes are generally imprecise and poorly explained or not explained at all. Project design, determined at the RRP stage, needs to be improved.

- (iii) Because inclusive growth is a strategic development agenda of Strategy 2020, the composition of a country's project portfolio should be based on an assessment of the progress and constraints to inclusive growth, using ADB's three-pillar framework. This assessment is carried out through the preparation of CPSs, which provide the road map for country operations. This study has found only weak discussion of inclusive growth in most CPSs and background documents. This weakness applies particularly to the identification of the level of progress made on and obstacles to improving access to opportunities and strengthening safety nets. ADB therefore needs to improve the quality of analysis of inclusive growth in its CPSs. CPS documents should strengthen the rationale for their choices of which inclusive growth pillars to emphasize and which sectors to focus on. CPS documents should include an analysis of inequality in terms of measurement, causes, and policy implications. Similarly, the existing poverty analysis in CPS background documents should be strengthened to properly identify the causes of poverty and their policy implications. The findings on gender equity and vulnerability and risk profiles, as well as productive employment analysis, need to be properly reflected, so that CPSs address unmet country needs for and complement government policies on gender-equity theme interventions and social protection. CPSs and their results frameworks should provide stronger links between the constraints to fostering inclusive growth and the

country strategies adopted in response to those constraints, considering that the inclusive growth agenda is to be achieved over the long run. Even though CPSs identified human development and social protection support as lacking in many of the countries examined, these CPSs often provided limited responses to these issues, and the logic for leaving them unsupported was often weak or not explained at all.

A one-size-fits-all approach cannot be applied to support for inclusive growth. Constraints to and opportunities for making growth inclusive vary from one country to another. Strategy 2020's 80:20 allocation of support for core and noncore areas, respectively, may undermine efforts to properly address challenges to inclusive growth in some cases due to its crowding-out effect on noncore area investments. Although infrastructure comprises the bulk of ADB's operations in core areas, noncore areas such as health, social protection, and agriculture, may be more directly linked with inclusive growth. For this reason, ADB may need to base allocation of its support for inclusive growth on the needs of each country. Integrating support for noncore areas into interventions in core areas can help ADB achieve greater synergy in country portfolios.

- (iv) Promoting inclusive growth requires a holistic approach of development support—that is, one that maximizes the complementarities and harmonization among the work of various development partners in a country. If the goal is to achieve inclusive growth given limited resources, outputs of development partners need to be interconnected to maximize development impact. For example, an ADB-supported highway project could promote greater inclusiveness if it is connected with schools and health care centers supported by other donor agencies. To increase the impact of country operations on inclusive growth, country teams should play a much bigger role in synergizing ADB's country programs with those of other donors. The impact of ADB's country operations may be weakened if areas it leaves to other donors are not filled. Projects with inclusive growth impacts that require complementary interventions by other stakeholders must ensure that these complementary interventions are actually carried out. Further strengthening ADB's capacity for developing and monitoring synergies with complementary development partner activities at both the program and project levels is imperative to maximize and leverage the impact of ADB's support for inclusive growth.
- (v) The absence of targeted outcomes in ADB's inclusive growth agenda leaves it somewhat directionless and difficult to assess. Although the staff guidelines incorporate a set of indicators to monitor inclusive growth, these do not include targets. Because country-level operations are key to implementing ADB's inclusive growth strategy, country teams should be encouraged to adopt country-level targets on these inclusive growth indicators to improve assessment of inclusive growth. Country portfolio reviews could show the progress on inclusive growth indicators in the form of a scorecard.

# Appendixes

## APPENDIX 1: HOW DO GROWTH, POVERTY, AND INEQUALITY INTERACT TO FOSTER INCLUSIVE GROWTH?

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1. Inclusive growth is a multidimensional concept built on the interplay between growth, poverty, and inequality. To decide whether growth is truly inclusive, growth, poverty, and inequality need to be examined together. This Appendix explores this interaction, particularly the causal link from growth to poverty and inequality, and the reverse causal link from poverty and inequality to growth. It also discusses trade-offs in realizing the objectives of growth and the reduction of poverty and inequality.
2. The inclusiveness of growth is usually determined by the impact of growth on poverty and inequality. Rapid and sustained growth is the conventional starting point on the path toward inclusive growth. As an economy achieves this kind of growth, more output is generated to support the material consumption of individuals and households. Rapid sustained growth should result in lower poverty. If growth is more inclusive, it follows that a further reduction in poverty and inequality would result. Likewise, a less unequal distribution of income enables a more effective impact of growth on poverty reduction.
3. The nature of the link between growth and inequality is a contentious issue in the research and development community. For one thing, the additional outputs produced when an economy grows may not be evenly distributed among the various factors of production, leading to inequality in income. Classical theory argues that income inequality is a precondition to growth, given that the well-off have a higher marginal propensity to save than the poor. In contrast, current development thinking on the functioning of a modern economy suggests that greater income inequality is likely to dampen growth through political and social instability, unproductive rent seeking, and increased insecurity of property rights.
4. Perhaps a more relevant issue is what triggers disparities in income or induces poverty. The unequal distribution of economic opportunity is one factor that perpetuates the cycles of poverty and income inequality. For instance, members of impoverished households that have little or no access to basic health and education services are often found to be less productive than those from better-off ones.
5. A level playing field created by the equitable distribution of opportunities is therefore necessary to trigger a successful inclusive growth process. Inclusive growth is therefore tantamount to growth with equal opportunities, which in turn can broaden the base and potential of growth.
6. The literature on inequality of opportunity distinguishes between inequalities due to disparities in personal efforts (deemed “fair inequalities”) and socioeconomic and genetic factors over which an individual has no control (“unfair inequalities”). The discourse on inequality of opportunity is particularly useful for policy making since only unfair inequalities are eliminated, with individuals accountable for the effort they put into economic activities.
7. Unfair inequalities, however, can hinder individuals from engaging in economic activities and prevent them from breaking out of poverty. Here, the reverse causal chain from poverty reduction to lower inequality and more inclusive growth is warranted. There are several ways in which poverty dampens or precludes growth; the poor, for example, have little or no access to markets, credit, and social services, which effectively prevent them from contributing to growth.
8. The multidimensional nature of inclusive growth inevitably leads to trade-offs in achieving the multiple objectives of growth and reduced poverty and inequality. This is primarily influenced by the composition and distribution of growth. Growth in sectors in which the poor are concentrated, such as agriculture, should help alleviate poverty, at least in the short run. In the long run, however, such an



approach may not be able to sustain growth. To achieve this and poverty reduction, it is imperative to improve the productivity of the poor by increasing their access to education and health services and widening other opportunities for them.

9. The trade-off between growth and inequality may also be driven by the unequal distribution of the benefits of growth among the various factors of production. For instance, growth in capital-intensive sectors may come at the expense of generating labor-intensive opportunities, particularly for the poor. Extractive industries such as mining and energy rely heavily on machinery and are less labor-intensive than other sectors. As such, unequal distribution of the benefits of growth among the various factors of production may lead to inequality in incomes.

10. Given the possible trade-offs in the interaction between growth, poverty, and inequality, identification of priority sectors to support for growth may differ from one economy to another because of the country-specific needs, challenges, and opportunities for making growth inclusive.

## APPENDIX 2: DECOMPOSITION OF THE GROWTH EFFECTIVENESS OF POVERTY REDUCTION IN BANGLADESH, THE PHILIPPINES, AND VIET NAM IN THE LATE 2000S (%)

	Bangladesh				Philippines				Viet Nam			
	Growth effect	Population effect	Consumption elasticity effect	Inequality effect	Growth effect	Population effect	Consumption elasticity effect	Inequality effect	Growth effect	Population effect	Consumption elasticity effect	Inequality effect
<b>\$1.25-a-day poverty line</b>												
Absolute poor	(1.68)	0.31	0.99	(0.13)	(2.13)	0.94	0.34	(0.92)	(2.42)	0.36	0.76	(0.39)
Poverty gap of absolute poor	(2.71)	0.51	1.59	(0.18)	(3.51)	1.55	0.57	(1.94)	(3.26)	0.49	1.03	(0.68)
Severity of absolute poverty	(3.64)	0.68	2.14	(0.18)	(4.80)	2.12	0.77	(2.87)	(3.94)	0.59	1.24	(0.78)
<b>\$2-a-day poverty line</b>												
Poor	(0.46)	0.09	0.27	(0.06)	(1.21)	0.53	0.19	(0.24)	(1.45)	0.22	0.46	0.04
Poverty gap of poor	(1.04)	0.19	0.61	(0.18)	(1.90)	0.84	0.31	(0.75)	(2.10)	0.32	0.66	(0.23)
Severity of poverty	(1.47)	0.27	0.86	(0.26)	(2.51)	1.11	0.40	(1.21)	(2.66)	0.40	0.84	(0.49)

( ) = negative.

Note: Figures reflect latest growth spells in 2005–2010 for Bangladesh, in 2006–2009 for the Philippines, and in 2006–2008 in Viet Nam. A growth spell is the period between two successive household surveys; Inequality effect represents the pro-pooriness of growth.

Source: Independent Evaluation Department staff estimates based on the latest Povcal database.

## APPENDIX 3: OUTPUTS SUPPORTING INCLUSIVE GROWTH, TARGETED AND DELIVERED, 2009–2012

Sectors	Asian Development Bank		Asian Development Fund	
	Output targeted	Achieved (%)	Output targeted	Achieved (%)
<b>Education</b>				
Classrooms built or upgraded (number)	67,600	87	66,600	87
Teachers trained (number)	1,257,000	98	1,254,000	97
Students benefiting from school improvement programs or direct support (number)	25,481,000	96	20,681,000	96
<b>Energy</b>				
Transmission lines installed or upgraded (kilometers [kms])	6,200	74	1,400	70
Distribution lines installed or upgraded (kms)	68,200	88	5,500	94
New households connected to electricity (number)	916,600	91	133,600	36
<b>Finance</b>				
Microfinance accounts opened or end borrowers reached (number)	2,431,000	99	2,200,000	99
SME loan accounts opened or end borrowers reached (number)	482,500	98	435,500	98
<b>Transport</b>				
National highways and provincial, district, and rural roads built or upgraded (kms)	39,700	86	16,700	71
Beneficiaries from road projects (number)	194,615,000	93	72,928,000	93
<b>Water</b>				
Water supply pipe installed or upgraded: length of network (kms)	16,200	79	11,700	87
New households served with water supply (number)	4,574,000	73	1,825,100	65
Wastewater treatment capacity added (cubic meters per day)	4,480,000	67	535,700	37
New households served with sanitation (number)	6,460,000	51	733,800	13
Land improved through irrigation services, drainage, and flood management (hectare)	3,223,000	80	923,100	73

Source: ADB. 2012. *Asian Development Bank's Development Effectiveness Review 2012*. Manila.

## APPENDIX 4: PORTFOLIO SHARE OF OPERATIONS SUPPORTING INCLUSIVE GROWTH BY SUBREGION (2000–2012)

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Subregion	Total number of projects approved	Total value of operations supporting inclusive growth (\$ million)	% of total support to inclusive growth
Central and West Asia	266	34,016	25%
East Asia	192	21,388	19%
Pacific	88	2,518	1%
South Asia	336	40,996	30%
Southeast Asia	365	34,732	25%
<b>Total</b>	<b>1,247</b>	<b>133,650</b>	<b>100%</b>

Source: Independent Evaluation Department staff estimates.

## APPENDIX 5: SUPPORT FOR NATIONAL COMMUNITY-DRIVEN DEVELOPMENT PROGRAM IN THE PHILIPPINES<sup>1</sup>

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1. The Philippines' National Community-Driven Development Program (NCDDP) strives to empower communities so that they can participate in local development initiatives. Supported by the Asian Development Bank (ADB), the NCDDP is built upon the Philippine government's program Kapit Bisig Laban sa Kahirapan: Comprehensive and Integrated Delivery of Social Services (Kalahi-CIDSS), which was set up in 2002 to alleviate rural poverty by providing resources to poor rural municipalities to invest in public goods. The NCDDP will expand ongoing Kalahi-CIDSS operations from 364 poor municipalities in 49 provinces to 900 poor municipalities in 63 provinces, covering an estimated 5 million households in about 17,000 rural village areas. It will provide grants for planning and implementing community-driven development subprojects, capacity building and implementation support, and program management monitoring and evaluation.

2. Lessons learned from the Kalahi-CIDSS and community-driven development programs in other countries have been incorporated in the design of the NCDDP. One of the main challenges in community-driven development is ensuring that communities have the ability needed to correctly identify and prioritize their needs. If they do not and they lack adequate information, project resources will not be used to achieve maximum impact and target the most impoverished as beneficiaries. Thus, technical support, including establishing community-based monitoring systems, would strengthen community planning processes. Equipped with knowledge of the local conditions, the communities would be empowered to improve the delivery of basic social services.

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<sup>1</sup> ADB. 2013. *Support for National Community-Driven Development Program in the Philippines*. Manila.