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The World Bank's New Poverty Data: Implications for the Asian Development Bank

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Abstract

In October 2008 the World Bank released new poverty counts based on the most recent purchasing power parity estimates. The new data show that the number of poor in Asia and the Pacific is more than one third higher than earlier estimated. This publication explains the methodology behind the new poverty estimates, highlights country specifics on extreme poverty and vulnerability, makes poverty projections through 2020 for the Asia and Pacific region based on pro-poor and pro-rich distribution as well as new growth scenarios, and discusses implications for the Asian Development Bank.

1. Introduction

In September 2008, the World Bank released an update of its global and regional poverty estimates. This was followed by the release of country-specific poverty estimates on 14 October 2008.¹ The new figures show that there are more poor people than previously estimated. Based on information for 25 developing member countries (DMCs) of the Asian Development Bank (ADB)—comprising 95.3% of the population of all DMCs²—the new data suggest that in 2005, about 903 million people (27% of the population of the 25 countries) lived in extreme poverty, one third more than the previously estimated 664 million (20%). In addition, about 900 million people in the region are moderately poor, indicating that more than half of the region's population (i.e., 1.8 billion people, 54%) is extremely poor or vulnerable to poverty. The increase in the poverty numbers is not due to the use of higher poverty lines. It is because the cost-of-living in developing countries turns out to be higher than estimates suggested. This is a key result of the 2005 International Comparison Program (ICP) study in which the ADB played a major role. The new data on poverty imply that it is premature to expect the region to be free of poverty soon. The poverty update has stimulated vigorous discussions in many countries. Interestingly, many governments seem to accept the message behind the new data, namely, that the region has to do much more to address poverty and vulnerability. What does this all mean for ADB's new Strategy 2020³ and its inclusive growth pillar?

2. What is the Right Poverty Line for International Comparisons of Poverty?

National or International Poverty Lines? Virtually all DMCs have established poverty lines that capture the cost of food and nonfood items required to achieve a minimum acceptable standard of living. The minimally acceptable standard of living differs from country to country. Typically, the higher per capita gross domestic product (GDP) in a country, the higher will be the bundle of nonfood goods and services deemed essential for a minimally acceptable standard of living.⁴ Thus, national poverty lines tend to be higher in richer countries (Figure 1). As a result, poverty estimates based on national poverty lines are important for national discussions, but do

¹ The new poverty estimates generated by World Bank researchers rely on cost-of-living data collected by ICP 2005 of which ADB was the regional coordinator for Asia and the Pacific. See: Shaohua Chen and Martin Ravallion: *The Developing World is Poorer than We Thought, but No Less Successful in the Fight against Poverty*. Available: www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2008/08/26/000158349_20080826113239/Rendered/PDF/WPS4703.pdf. Please note that the latest Chen and Ravallion data, which are available in PovcalNet, are not yet reflected in the World Bank's World Development Indicators.

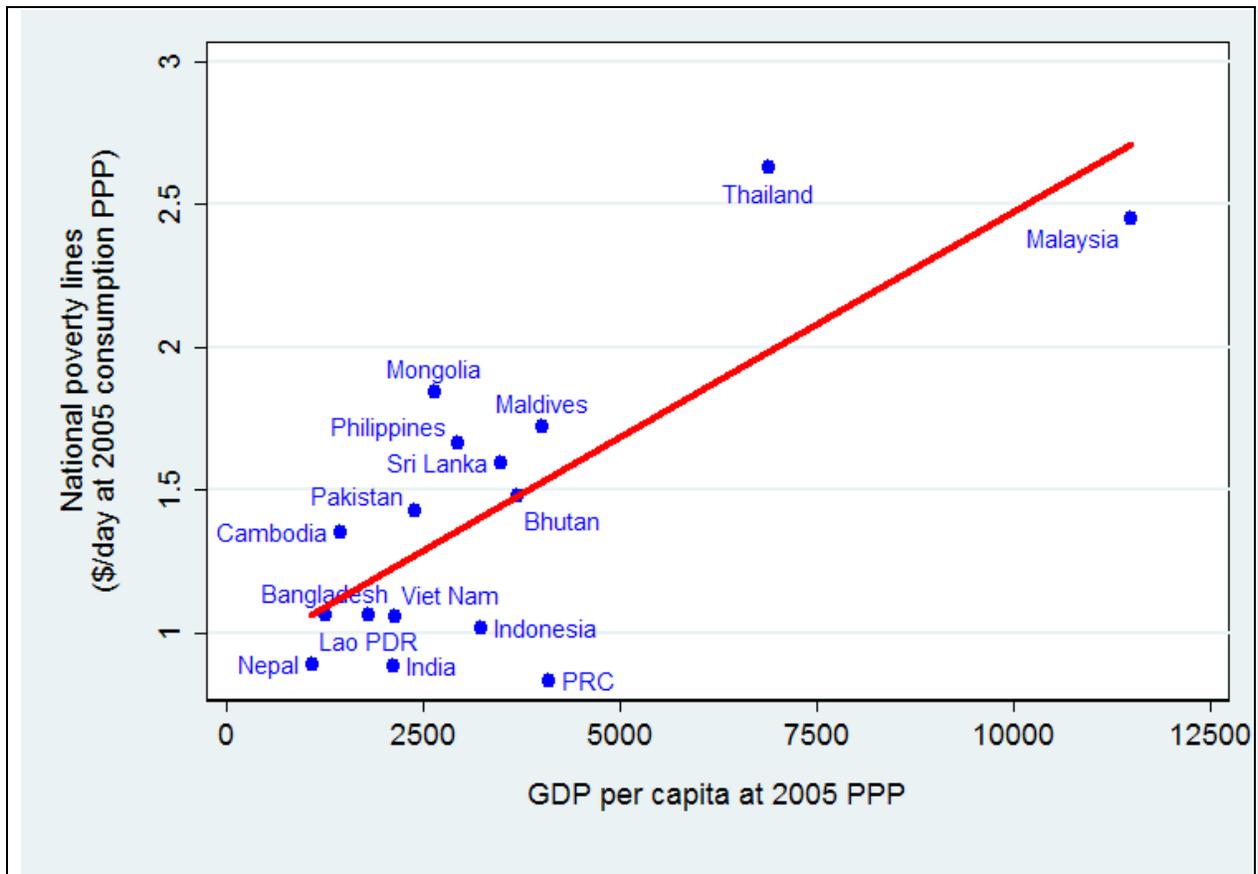
² Nineteen DMCs are not covered under the World Bank estimates, comprising only 4.2% of the region's population. Not covered under the survey are Afghanistan (25.1 million inhabitants in 2005), Cook Islands (0.0 million), Fiji Islands (0.8 million), Hong Kong, China (6.8 million), Kiribati (0.1 million), Maldives (0.3 million), Marshall Islands (0.1 million), Federal States of Micronesia (0.1 million), Myanmar (55.4 million), Nauru (million), Palau (0.0 million), Samoa (million), Singapore (4.3 million), Solomon Islands (0.5 million), Republic of Korea (48.1 million people), Taipei, China (22.8 million inhabitants), Tonga (0.1 million), Tuvalu (0.0 million), and Vanuatu (0.2 million).

³ ADB. 2008. Strategy 2020. The Long-Term Strategic Framework of the Asian Development Bank 2008–2020 (LTSF II). Manila. Available: www.adb.org/Media/Articles/2008/12440-ADB-strategies/default.as

⁴ See Ravallion, Chen, and Sangraula (2008) for an excellent discussion.

not provide a good basis for comparing poverty across countries in a region. To obtain internationally comparable estimates of poverty, a common standard of living must be used to differentiate between the poor and the nonpoor across all countries. In other words, the poverty line chosen must represent a threshold standard of living that is constant across the countries whose poverty is to be compared. Such a poverty line is referred to as the international poverty line.

Figure 1: National Poverty Lines in Asia: Richer Countries Tend to Have Higher Poverty Lines



GDP = gross domestic product, PPP = purchasing power parity, PRC = People's Republic of China, Lao PDR = Lao People's Democratic Republic.

Source: ADB (2008). *Key Indicators for Asia and the Pacific*.

The “\$1-a-day” Poverty Line. How does one go about setting an international poverty line? Researchers at the World Bank came up with a simple approach to tackle this question in 1990. Essentially, they argued that the national poverty lines of low income countries provided a natural benchmark for comparing the incidence of extreme poverty globally and across countries. Based on national poverty lines for a sample of 33 countries, the World Bank researchers found that a poverty line of \$1-a-day per person was “representative” of the national poverty lines employed in 10 low-income countries.⁵ Accordingly, they proposed it as a common benchmark against which internationally comparable estimates of extreme poverty could be

⁵ These national poverty lines were not necessarily “official.” Indeed, many of them were estimates from independent researchers.

obtained. The “\$1-a-day” poverty line was thus born and introduced in the World Bank’s *World Development Report 1990*.⁶

Does the \$1-a-day Poverty Line get Updated Periodically? World Bank researchers have updated the \$1-a-day poverty line several times in the past. An update in 2000 set the international poverty line for extreme poverty at \$1.08 a day in 1993 prices.⁷ The term “\$1 a day”—a rhetorical master stroke according to many analysts—was retained. The latest update, announced in March 2008, is \$1.25 per day in 2005 prices.

Why the \$1-a-day and the \$1.25 Poverty Lines are Essentially the Same. The updates to the \$1-a-day poverty line may well give the impression that the “bar” is being raised. That is not the case. All updates are based on the same philosophy as the original: the \$1-a-day poverty line was chosen to represent the national poverty lines found in poor countries. The procedures used to implement this philosophy have undergone some changes. But these changes primarily reflect access to better information on national poverty lines used in developing countries and used as the starting point for setting the international poverty line.⁸ The 2000 poverty estimates were based on purchasing power parity (PPP) rates of 1993. The 2008 update were based on the latest available international PPP comparisons for the year 2005.

Why Then Have Poverty Estimates been Revised Upwards (If the Poverty Line Remained Essentially Unchanged)? The main reason is that the cost-of-living in developing countries turns out to be higher than previous estimates indicated. Thus a dollar is able to purchase fewer food and nonfood consumption items than previously thought. This is a key result of the ICP 2005 study in which ADB played a major role.⁹ In particular, ICP 2005 showed that the cost-of-living in developing countries is higher than what ICP 1993 indicated. A record 146 economies participated in ICP 2005. For the first time, the People’s Republic of China (PRC) participated in an ICP study. Additionally, it was the first time that India participated in 20 years.

How Do We Compare Cost-of-Living Across Countries? As regional coordinator for the 2005 ICP exercise in Asia and the Pacific, ADB worked with the national statistics offices of 23 economies to collect and compare the prices of over 1,000 products. About 650 of these products were goods and services consumed by households. The prices of these products were used to construct PPPs for household consumption (consumption PPPs for short). Consumption PPPs enable us to meaningfully compare the cost-of-living across countries and therefore have a crucial role to play in generating internationally comparable estimates of poverty.

⁶ World Bank. 1990. *World Development Report*. Washington, DC. This poverty line was subsequently adopted by the United Nations system and by other bilateral and multilateral organizations. The \$1-a-day poverty line is the main indicator for the first target of the first Millennium Development Goal (MDG).

⁷ Chen, Shaohua, and Martin Ravallion. 2001. How did the World’s Poor Fare in the 1990s? *Review of Income and Wealth* (47) 3.

⁸ The original \$1-a-day poverty line set in 1990 represented an average of the poverty lines of 10 low-income countries. These 10 countries were not necessarily among the poorest of the world. These 10 countries were simply those low-income countries for which poverty lines were available to the World Bank researchers. In sharp contrast, the new poverty line of \$1.25 a day draws upon the national poverty lines of 75 developing countries and is the average of the 15 poorest countries worldwide—countries whose per capita private consumption expenditures were less than \$60 per month in 2005 prices. It is important to note that only two countries from developing Asia (i.e., Nepal and Tajikistan) are included in this group, while the remaining 13 are from Sub-Saharan Africa.

⁹ The ICP is a global statistical project that has been producing estimates of PPPs since 1970. ADB was the regional coordinator for the Asia and Pacific region for ICP 2005.

An Example from the Philippines on the Importance of Considering PPP. Consider the poverty line of \$1.25 per day in 2005 prices. To figure out how many people in the Philippines live on less than this, we need to convert \$1.25 into Philippine pesos (P) and then use 2005 household expenditure survey data from the Philippines to figure out how many people are poor. Contrary to common belief, the tricky part in all this is converting the dollar into pesos. One might think that market exchange rates would be natural to use for this purpose. But this is incorrect. In 2005, it took P55.09 to obtain \$1 in currency markets. However, this does not mean that \$1 had the same purchasing power in the US as P55.09 in the Philippines insofar as products commonly consumed by households are concerned. Exchange rates are influenced by the extent of trade across countries, investment flows, speculation by currency traders, and changes in the official reserves, among others. They are unlikely to be a good indicator of the purchasing power of different currencies over the goods and services that make up household consumption. Indeed, the results of the 2005 ICP found that \$1 in the US had the same purchasing power as P24.18 in the Philippines as far as household consumption is concerned. Thus, when computing the number of extremely poor in the Philippines in 2005, the conversion of \$1.25 into pesos should use a multiplier of P24.18 and not P55.09. Thus, for the Philippines, the international poverty line becomes P30.23 in 2005. Anyone is classified as poor based on the international poverty line if she or he lives on expenditures less than P30.23 per day.¹⁰

Criticisms of the World Bank Updates. There have been several criticisms of the World Bank's poverty estimates:

- (i) **The right standard.** The \$1 or \$1.25 poverty line is variously argued to represent either too low or too high a standard of living. However, there is no reason that other international poverty lines cannot be considered. The \$1.25 a day poverty line represents a poverty line that captures extreme poverty as defined by the national poverty lines of the 15 poorest countries in the world. Many Asian countries use national poverty lines higher than \$1.25. Indeed, as noted in ADB's *Key Indicators 2008*,¹¹ the median value of the national poverty lines of 13 developing Asian countries whose GDP per capita is about \$4,000 or less in 2005 PPPs works out to be \$1.35 a day. Thus, another threshold such as \$2 a day (in 2005 prices) can easily be considered. We refer to \$2-a-day poverty as moderate poverty. As Chen and Ravallion (2008) point out, \$2 represents the median poverty line of all developing countries. It may be noted that Malaysia and Thailand have poverty lines considerably higher than \$2.
- (ii) **Capabilities of the poor.** Some argue that the World Bank's approach for setting an international poverty line is arbitrary. According to this line of argument, a meaningful international poverty line must be based at the outset on "an internationally agreed-upon set of income dependent capabilities which an individual ought to be able to afford in order to be deemed nonpoor" (Reddy 2004¹²). Internationally comparable estimates of poverty would then entail determining in each country the specific resources for acquiring the agreed-on capabilities and bundle of goods and services. However, an international agreement on a standard poverty line does not exist. Rather, individual countries have their own national poverty lines. It is difficult to see how an international

¹⁰ Note that the Philippine national poverty line is higher than the \$1.25 international standard.

¹¹ ADB. 2008. *Key Indicators*. Manila: ADB.

¹² Sanjay Reddy (Columbia University): <http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH/0,,contentMDK:21882162~pagePK:64165401~piPK:64165026~theSitePK:469382,00.html>.

agreement could come about on a subject as sensitive and contextual as what it means to be poor.¹³ Nevertheless, an implementable compromise could be achieved along the lines of Kakwani (2007). Noting that a basic human need is the capability to be adequately nourished, Kakwani computes an international poverty line based on the food requirement that ensures an adequate calorie intake.¹⁴

- (iii) **PPPs of the poor.** Another criticism has to do with the PPPs used in converting the international poverty line into local currencies. In particular, the World Bank's "\$1 a day" estimates are based on PPPs generated for comparing the household consumption aggregate of the national accounts across countries. Thus, they are based on the pattern of consumption of the general population and not necessarily of the poor. This means they are influenced by products that the extremely poor are very unlikely to consume—such as motor cars and high-quality shirts. Additionally, they may place inappropriate weight to particular classes of products. For example, given that food makes up a much larger share of total expenditures for the poor (often 15 to 20 percentage points higher compared to the general population), the price of food should have greater weight in the construction of PPPs insofar as poverty estimation is concerned. As demonstrated by ADB's work on ICP 2005, it is feasible to develop a set of PPPs based on the consumption patterns of the poor and use these in generating internationally comparable estimates of poverty.¹⁵ Moreover, as also demonstrated by ADB's work, the use of poverty-specific PPPs as opposed to the standard consumption PPPs can lead to large changes in estimates of poverty in the region. Indeed, a key recommendation of ADB's work is that the next round of ICP, expected to be in 2011, collect prices of goods and services consumed by the poor and generate poverty-specific PPPs.

3. What Do the Data Say?

More Poor People Worldwide. The new World Bank data show that poverty is much higher than previously estimated. The 2005 world poverty is estimated at 1.4 billion people (25.2% of the world population), up from earlier estimates (based on 1993 PPP) of 879 million people (16.1%). Based on the \$2 poverty line, more than 2.6 billion people (nearly half the developing world's population) are poor.¹⁶ Asia and the Pacific served by ADB comprises more than two thirds of world poverty.

About One Third of Asia's Population is Extremely Poor and Nearly Two Thirds are Moderately Poor. The new estimates show poverty in Asia and the Pacific increasing from 664 million (19.9% of the population in the 25 surveyed Asia and the Pacific countries) to 903 million (27% of the region's population). In addition, 899 million are moderately poor, if the \$2 poverty line¹⁷ is used. Thus, 1.8 billion women, men, and children or 54% of the regional

¹³ See recent reply of Martin Ravallion to the critique of Sanjey Reddy at www.undp-povertycentre.org/pub/IPCOnePager66.pdf.

¹⁴ Kakwani proposes a simple nonparametric approach to calculate the nonfood poverty line for each country. See: Kakwani, Nanak (2008): *New Global Poverty Counts*. In: *Asian Development Review*, Vol. 24, No. 2.

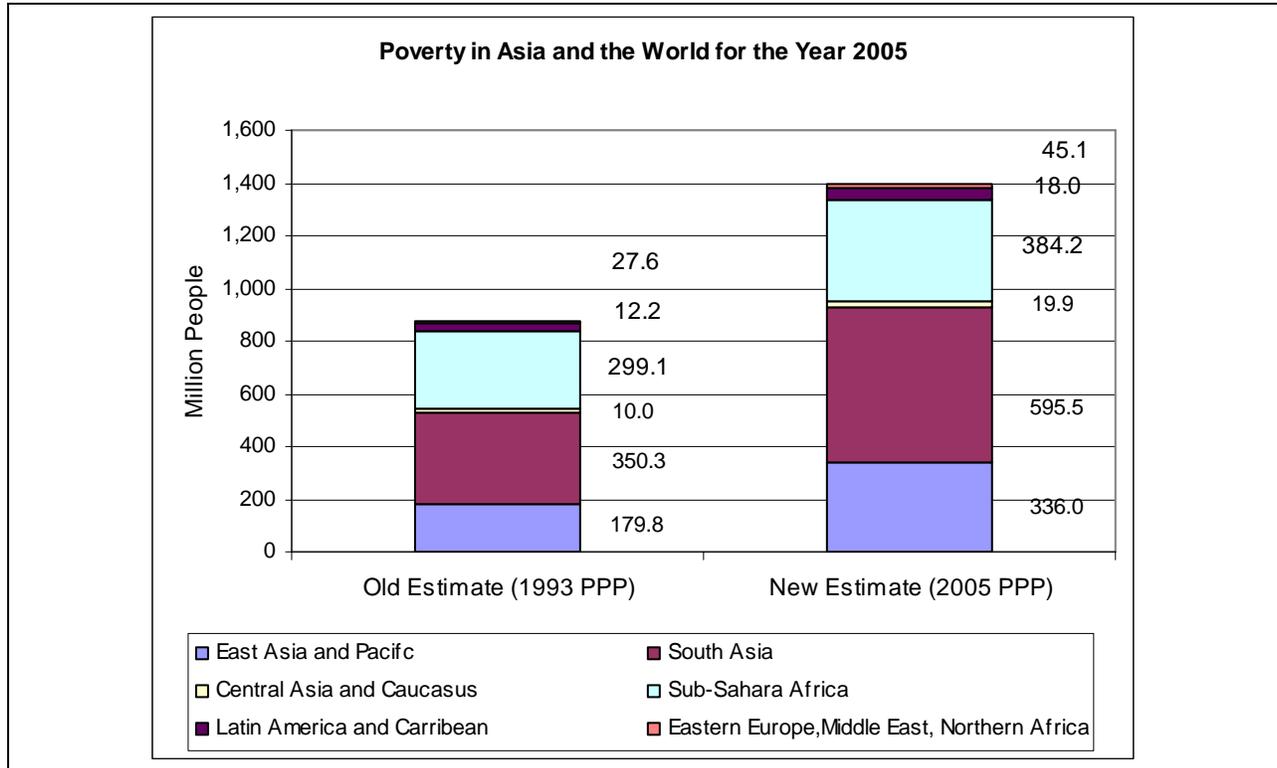
¹⁵ ADB. 2008. *Comparing Poverty across Countries: the Role of Purchasing Power Parities*. www.adb.org/Documents/Books/Key_Indicators/2008/pdf/Highlights.pdf.

¹⁶ The \$2 poverty line is the median value of the national poverty lines of 75 developing countries worldwide. In this paper all people who live on less than \$2 a day are called poor people or those vulnerable to poverty with people on less than \$1.25 (2005 PPP) are extremely poor, and those from \$1.25 to \$2 are moderately poor.

¹⁷ The \$2 poverty line is the median value of the national poverty lines of 75 developing countries worldwide.

population are poor. Even poverty incidences in successful regions such as Southeast Asia are much higher than earlier estimated (19% instead of 10% assumed earlier). Appendix 1 provides consolidated estimates of extreme and moderate poverty for ADB DMCs based on the new World Bank numbers.

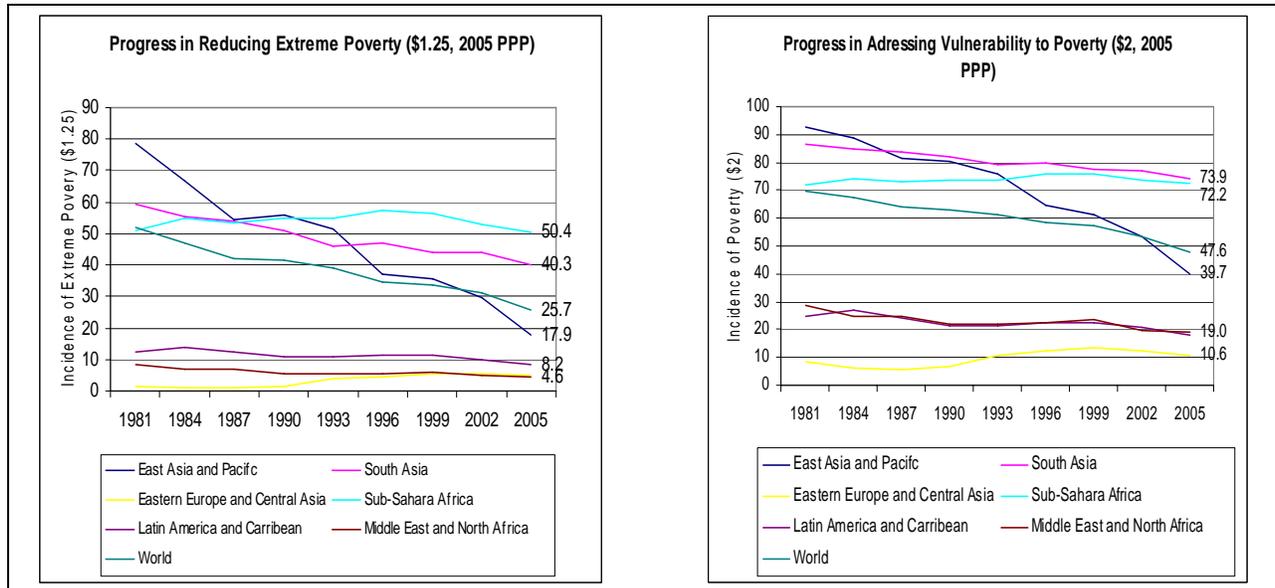
Figure 2: Comparing New and Old Poverty Estimates



PPP = Purchasing Power Parity.
 Source: Chen and Ravallion, 2008,

Despite More Poor in Absolute Numbers, Progress Remains Remarkable. While the new data show higher poverty incidences, they confirm the remarkable progress in poverty reduction, especially in East and Southeast Asia, and particularly in the PRC (Figure 3). Applying the new data, extreme poverty was reduced worldwide from 52% in 1981 (1.9 billion people) to 26% in 2005 (1.4 billion people). In Asia and the Pacific, extreme poverty (\$1.25) decreased from 1.4 billion people in 1990 (52.3% of population surveyed) to 903.4 million (27.1%). However, the world was barely successful in reducing the number of poor under the \$2 poverty line. In fact, the number of poor worldwide remained the same between 1981 and 2005 (about 2.5 billion), while the number of moderately poor people (i.e., living between \$1.25 and \$2) even doubled worldwide during the same time from about 600 million to 1.2 billion. Asia and the Pacific was a bit more successful. In absolute numbers for 2005, 1.8 billion women and men (54.0% of the region’s population) lived on less than \$2 a day, about 200 million less than in 1981 (2.0 billion) and in 1990 (2.1 billion people and 79.4% of the population). Clearly, growth, distribution, and other factors in the region were not inclusive enough to impact sufficiently on poverty. The fight on poverty is not over at all.

Figure 3: The World's Progress in Poverty Reduction

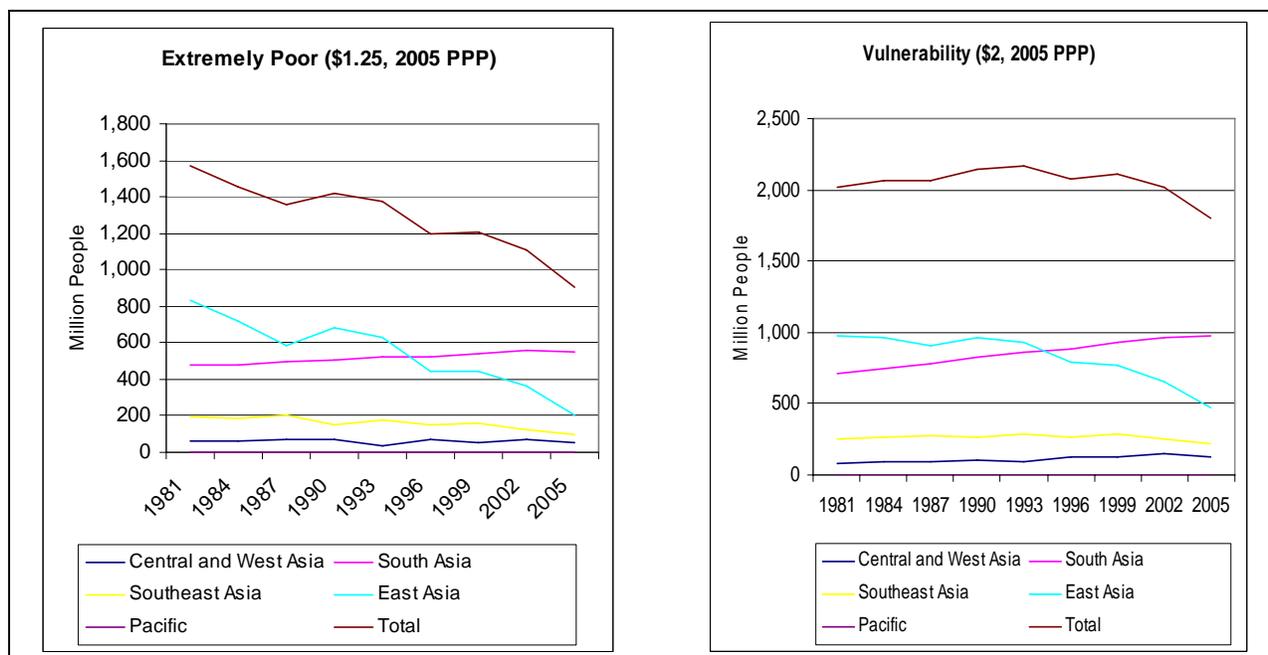


PPP = purchasing power parity.
 Source: Authors' estimates based on Chen and Ravallion (2008).

Only a Few Asian Countries are on Target in Millennium Development Goal 1 (Halving Income Poverty). Globally, poverty reduction was mainly driven by the PRC. Without the PRC, the world would not be successful in achieving Millennium Development Goal 1 (MDG 1) (i.e., halving poverty between 1990 and 2015). In the developing world outside the PRC, the \$1.25 poverty rate has fallen from 40% to 29% over 1981–2005, which has not been enough to bring down the total number of poor worldwide. Projections show that only the East Asia region will be able to reach MDG 1 in terms of halving the poverty rate (Figure 4).¹⁸ Countries in the region that are likely to achieve MDG 1 include Armenia, Azerbaijan, Bhutan, PRC, India, Indonesia, Kazakhstan, Malaysia, Mongolia, Pakistan, Sri Lanka, Thailand, Turkmenistan, and Viet Nam. However, when the number of poor is taken into account countries such as India and the Philippines may not be able to halve extreme poverty. Furthermore, the gains in poverty reduction were made for most countries in the 1990s and not in the 2000s, when growth rates were very high in Asia and the Pacific.

East Asia is the Most Successful Region in Reducing Poverty. In ADB's regional setup, the East Asia region comprises two countries, the PRC and Mongolia. It was the world's poorest region in 1981. The success story is outstanding. Within 25 years, the PRC reduced the number of poor people below the \$1.25 world poverty line from 835 million (84.0%) to 208 million (15.9%), although progress has been uneven over time. Even the number of moderately poor (under the \$2 line) came down substantially to 36.3% (474.9 million people). It is also interesting to see that despite major migration, urban poverty in the PRC continues to go down, from 44.5% in 1981 to 1.7% in 2005.

¹⁸ The projections are based on ADB estimates given average growth rates of the last 15 years and distribution patterns similar to those of 2005 (see section 4 of this paper).

Figure 4: Poverty in the Asian Development Bank's Asia and the Pacific (million people)

PPP = purchasing power parity.

Source: Authors' estimates, based on World Bank PovCalNet data (October 2008).

Southeast Asia is Less Successful in Addressing Vulnerability. From 1981 to 2005, the subregion successfully reduced the number of extremely poor from 192.9 million to 93.4 million. However, vulnerability to poverty could barely be addressed in a sustainable manner. This implies significant increases in inequalities and the need for poverty reduction and social development programs to be more inclusive. The success of Indonesia, which reduced the \$1.25 poverty from 71.5% to 21.4%, and Viet Nam, from 90.4% to 22.8%, is outstanding, compared to the Philippines, which had a very modest decrease in the poverty rate from 31.4% to 22.6%. Emerging middle-income countries such as Malaysia and Thailand have virtually eradicated extreme income poverty with only 0.5% (Malaysia) and 0.4% (Thailand) of their population being severely poor. For these two countries, the \$2 poverty line is more relevant. In both countries the percentage of people who are vulnerable to poverty (\$2) came down from 11.1% (1990) to 7.8% (2005) for Malaysia, and from 30.5% (1990) or 44% (1981) to 11.5% (2005) for Thailand. On the other side, social development and growth in the subregion seem to be limited on inclusiveness. In 2005 in Indonesia, 53.8% of the population still live on \$2 a day, in the Philippines 45.0%, and in Viet Nam 50.5%.

South Asia Remains the Poorest Region. Poverty in South Asia is particularly severe with 42.5% of the population being extremely poor (up from 30% of the old estimates) and 75.6% are vulnerable to or live in extreme poverty. Poverty in South Asia is even higher than in sub-Saharan Africa, not only in terms of absolute numbers but also in terms of percent of population. While the number of poor in all other Asian regions declined between 1981 and 2005, South Asia is the only region where they actually increased, from 470 million to 550 million extremely poor (\$1.25), and from 709 to 978 million vulnerable poor (\$2). In absolute numbers, the biggest increase is found in Bangladesh (from 40 million people below the \$1.25 poverty line in 1981 to 77 million in 2005), India (from 420 million to 456 million) and Nepal (from 12 million to 15 million). The only successful country in the South Asia subregion was Sri Lanka, where the number of poor fell from 4.7 million to 2.0 million. In percentage terms all countries

reduced poverty, except Bangladesh, where in 2005 more than 50% of the population were living below \$1.25 compared to 44% in 1981. The new data with the 2005 PPP are substantially different from the estimates based on the 1993 PPP. Poverty incidences increase especially for Bangladesh (from 30.3% to 50.5%), Nepal (from 23.8% to 54.7%), and Sri Lanka (from 1% to 10%). The new PPPs raise the number of poor people in India from 336 million (30.7% of the population) to 456 million (41.6%). The poverty incidence in rural India is higher at 43.83% (342.9 million people) but urban poverty too is relatively high at 36.2% (112.9 million people).

Central and West Asia Made its Turnaround. Before the breakup of the Soviet Union, the Central Asian republics and the countries in the Caucasus had basically no severe poverty. Between 1996 and 1999 poverty increased substantially to about 15% for the Caucasus countries and 35–40% in Central Asia. By 2005, severe poverty came down in all countries but the situation is very diverse. Today, Armenia, Azerbaijan, and Kazakhstan had poverty incidences of 1–5%, Georgia and Turkmenistan are between 12% and 13%, and the three Central Asian countries Kyrgyz Republic, Tajikistan, and Uzbekistan have poverty incidences of 21–39%. For the better-off countries in the region, the \$2 poverty line is more relevant—except for Azerbaijan and Kazakhstan, where only 1–10% of the population have income less than \$2; in Armenia, Georgia, and Turkmenistan about one third; in Tajikistan and Kyrgyz Republic slightly more than half; and in Uzbekistan up to 70% of the population live on less than \$2. In ADB terminology, Afghanistan and Pakistan belong to the Central and West Asia region. Pakistan is also a success in poverty reduction. Perhaps not known to many, the country was able to reduce extreme poverty from 72.9% in 1981 to 22.6% in 2005. Pakistan, however, was much less successful when the \$2-a-day poverty line is used. In 2005, 60.3% of the population still lived below \$2, down from 91% in 1981.¹⁹ While the World Bank does not provide data for Afghanistan, extreme poverty is estimated at 52% and moderately poor at over 85% of the Afghan population.

Pacific. The new World Bank data provide information for only 2 of the 15 Pacific countries, namely, for Timor-Leste and Papua New Guinea. Those two countries represent 77% of the subregion's population.²⁰ Between 1981 and 2005, extreme poverty (\$1.25) in Papua New Guinea remains about 29% and vulnerability (\$2) at about 51%. In contrast, in Timor-Leste, extreme poverty came down substantially from 82% to 44% and vulnerability poverty from 93% to 70% respectively. Most Pacific countries beyond Timor-Leste and Papua New Guinea have opted for living standard indicators to capture poverty. However experts estimate the incidence of income poverty at a poverty line of about \$1.5 ranges between 15–30% depending on the country.

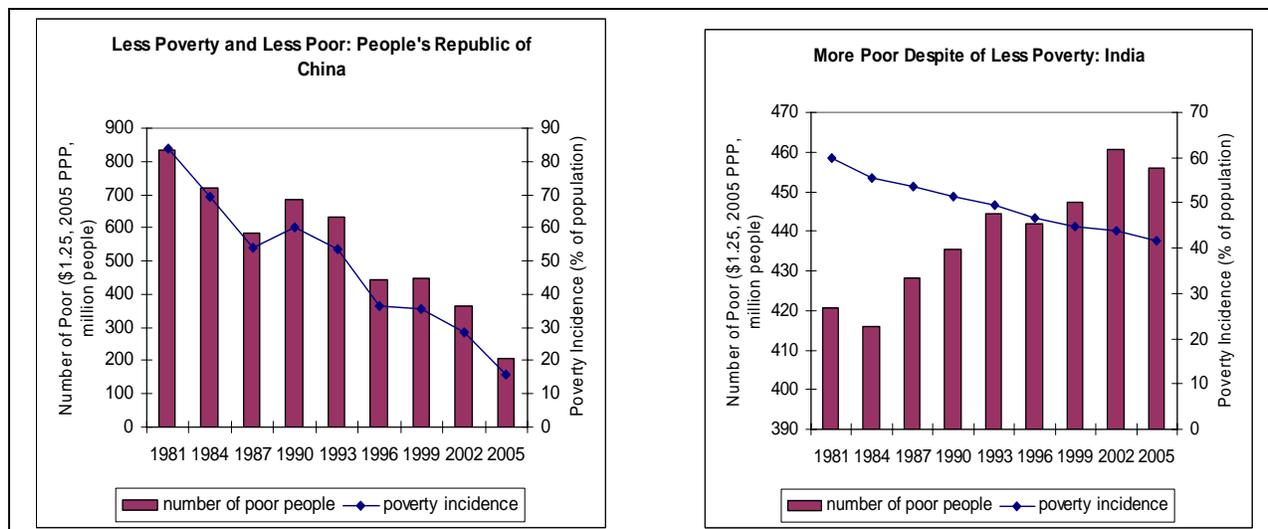
For Some Countries Lower Poverty Rates Come Along With More Poor People. While the region was successful in reducing the number of extremely poor people between 1981 and 2005 from 1.6 billion to 903 million, the story looks much more gloomy when the PRC is taken out. Outside the PRC, Asia and the Pacific has only 41 million people less very poor today than 25 years ago. For countries like Bangladesh, Cambodia, India, Nepal, Philippines, Papua New Guinea, and Timor-Leste, there are more or the same magnitude of poor people despite a reduction in the respective poverty rates. A comparison of the PRC and India, the two most populous countries in the region, is interesting (Figure 5). While India reduced its poverty

¹⁹ Additionally, it needs to be noted that there is some concern that earlier estimates of poverty for Pakistan may be unrealistically high. See the discussion in ADB key indicators 2004 (ADB. 2004. *Key Indicators for Asia and the Pacific*. Manila) on a comparison of poverty trends for Pakistan based on estimates by national researchers versus \$1 a day of the estimates.

²⁰ Together with Fiji Islands, the three countries now represent 86% of the subregion's population. Poverty in Fiji Islands was estimated in 2005 at 54.5%, based on a national poverty line of roughly \$1.6.

incidence from 60% to 42%, the absolute number of poor people increased from 420 to 456 million. On the other side, the PRC was able to reduce the number of poor (from 835 million in 1981 to 208 million in 2005) as well as their share in the population (from 84% to 16%).

Figure 5: Number of Poor Versus Percentage of Poverty: A Comparison of PRC and India



PPP=purchasing power parity.

Source: Authors' estimates, based on World Bank PovCalNet data (October 2008).

Poverty and Food Price Increases. Because of lags in survey data availability, the estimates do not yet reflect the sharp rise in food and fuel prices since 2005. Incorporating these, the poverty incidences in Asia and the Pacific are likely to go up. Recent simulation-based studies show that the inflationary trends in countries such as Pakistan and the Philippines are expected to increase poverty incidence by 3–5%.²¹ Governments in the region are taking mitigation measures such as price subsidies and establishing safety nets, but newer counts to come will probably show poverty rates to have increased all over the region.²² In addition to the price increases, the recent global financial crises may have serious adverse effects on growth and poverty in the region.

4. Projections Through 2020

Why Poverty Estimates Toward the Future are Important. Predicting the future is always hazardous. However, projecting poverty is important for policy setting for Asia and the Pacific. Climate change, for example, represents a major factor for poverty increase in dryland and

²¹ See ADB's Food Price Crisis website: www.adb.org/Food-Crisis/default.asp

²² A recent ADB study shows that inflation in Asia is mainly homegrown. External food and oil price shocks explain less than 30% of Asia's CPI inflation, while excess aggregate demand and inflationary expectations account for about 60%. Hence, reduction of subsidies (mainly on fuel and food and benefiting also the poor) will significantly exacerbate inflation in many Asian countries, further harming the poor. See ADB. 2008. *Inflation in Developing Asia: Demand-Pull or Cost-Push?* (Sept). Available: www.adb.org/Documents/ERD/Working_Papers/WP121.pdf.

coastal areas.²³ More generally, projections on the incidence of poverty depend critically on how economic growth and distribution evolve. In what follows, we project what poverty would look like in developing Asia in 2015 and 2020.

Estimating Growth. To go from poverty estimates in 2005 to poverty estimates for 2015 and 2020 requires making assumptions about the rate of economic growth until 2020, and how this growth translates into growth of per capita expenditures among different households.²⁴ We consider the following scenarios. For economic growth, we generally assume that GDP per capita in each country will grow between 2008 and 2020 by 75% of the average annual growth rate in GDP per capita registered by the country over the last 5 years, i.e., between 2003 and 2007 (as reported in ADB's *Asian Development Outlook*).²⁵ We make an exception to this rule in five cases where the resulting growth rates appear to be unreasonably high (i.e., in excess of 8% per annum) or unreasonably low (less than 2% per annum).²⁶ The growth rates we came up with were very consistent with the average growth rates of those countries over the last 17 years, adjusted for major exceptions. Appendix 2 gives these growth rates. Next, we translate this growth in GDP per capita into growth of average per capita expenditures of households by adjusting the former downward to reflect the empirical finding that a 1% increase in GDP per capita is associated with a 0.6% increase in survey-based mean per capita expenditures.²⁷ In this way, we can project estimates of average household expenditures (expressed in per capita terms) from 2005 all the way to 2015 and 2020.

Assuming Pro-Poor and Pro-Rich Distribution Patterns. One more ingredient is needed before we can estimate poverty. This is information on how the average household expenditures projected for 2020 are distributed across households. The complexity of the connections between growth and distribution within countries means that there is little guidance on what distributions will look like in 2020 under the chosen growth rates. We therefore take an agnostic approach and consider three scenarios for distribution of per capita expenditures. In one scenario, we treat distribution as unchanged between 2005 and 2015/2020 (or more accurately, the latest year for which household survey data are available, and 2015/2020). In other words, in this scenario economic growth is “distributionally neutral,” compared to the baseline scenario of 2005. In a second scenario, we consider the possibility that the distribution works in favor of the relatively poor. More specifically, we assume that only the middle 40% experience growth in per capita consumption expenditures equal to mean growth. The bottom 40% see their per capita expenditures grow faster by 5% than the mean, while the per capita expenditures of the

²³ A recent ADB study shows that the environment is becoming the main reason for poverty. See: Bauer, Armin. 2008. *The Environments of the Poor*. Paper for the Poverty and Environment Meeting. Manila (June). ADB. See (i) www.povertyenvironment.net/pep/?q=filestore2/download/1848/Bauer%20_June%2008_%20The%20Environments%20of%20Poverty%202.pdf; and (ii) www.povertyenvironment.net/?q=filestore2/download/1829/PEP13-EnvironmentofthePoor-Bauer.ppt&bcsi_scan_B90AE85AF6AB15C6=1.

²⁴ Strictly speaking, assumptions on growth are needed for 2008 to 2020 since we know what economic growth has been like between 2005 and 2007.

²⁵ Since we already know what GDP per capita was in 2006 and 2007, we only need to make assumptions about future GDP per capita is starting from 2008.

²⁶ Asian Development Bank (various years). *Asian Development Outlook*. Manila: ADB. The exceptions are Armenia, Azerbaijan, and Turkmenistan from Central Asia; Nepal from South Asia; and Papua New Guinea and Timor-Leste from the Pacific Islands.

²⁷ This relationship is obtained by regressing the first difference of actual survey means and logs on a constant in the first difference of real GDP per capita in logs for 14 countries.

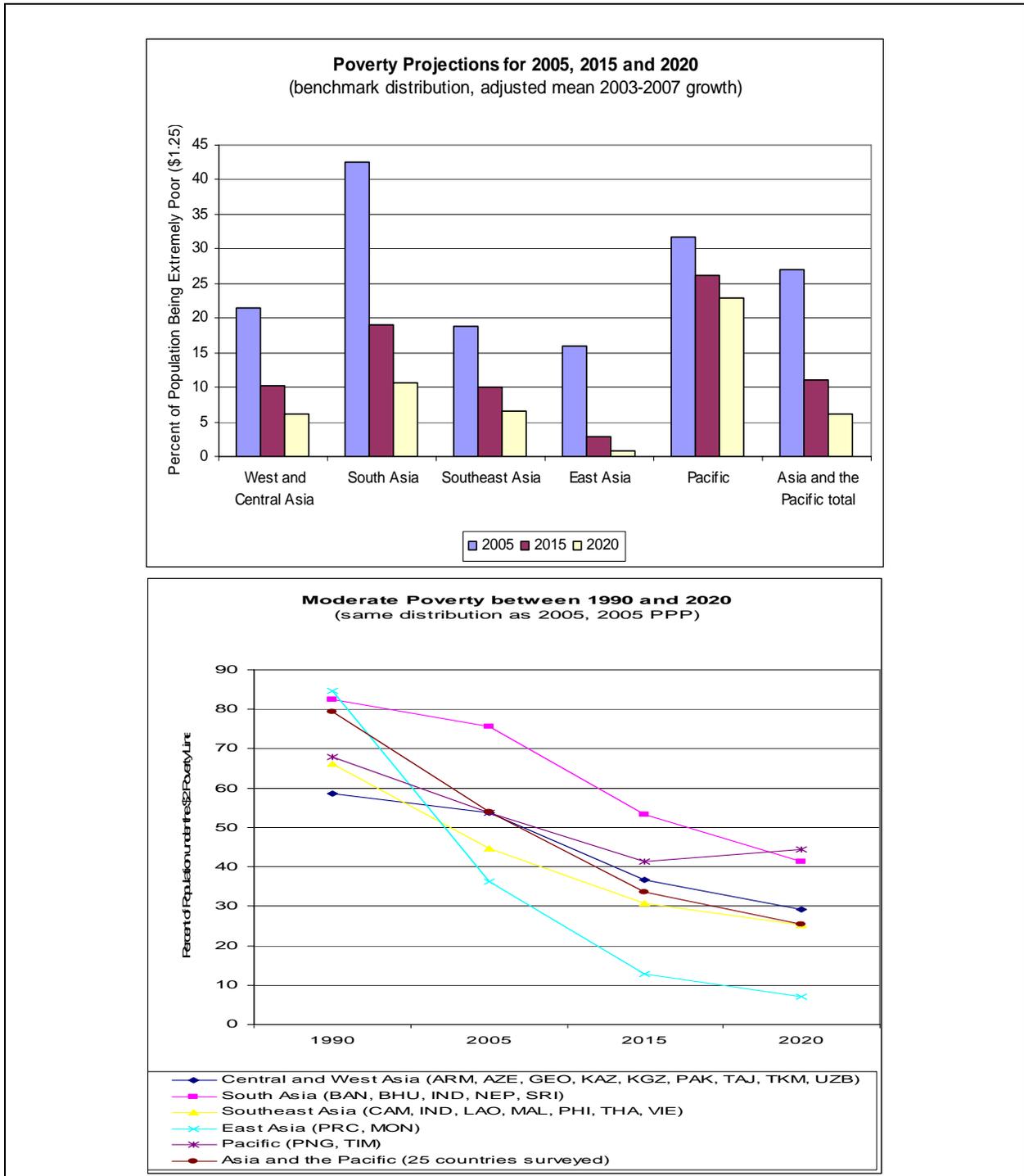
top 20% grow less than the mean.²⁸ We label economic growth to be “pro-poor” in this scenario. A final scenario is where per capita consumption expenditures of the top 20% (5th quintile) grow 5% more than total growth, while the middle 40% experience growth in per capita consumption expenditures equal to mean growth and the per capita expenditures of the bottom 40% grow less than the mean. In this scenario, economic growth is termed “pro-rich.” It may be noted that the implied difference in the Gini coefficients between the pro-rich and pro-poor distributions is around 3 percentage points on average. Appendix 3 shows the result of our growth and distribution assumptions on the Gini coefficients in Asia and the Pacific countries, projected through 2020. Figure 6 shows the summary of our 2015 and 2020 projections for extreme poverty and \$2 poverty by Asia and the Pacific subregions, if distribution patterns in Asia and the Pacific do not change.

Asia and the Pacific Will by No Way Be Free of Extreme Poverty by 2020, unless Growth is More Inclusive. Appendix 4A describe by subregions the projected poverty rates and numbers of poor in 2015 and 2020 for each of the three scenarios for the \$1.25 extreme poverty scenario. As can be seen, the lowest poverty rates result from pro-poor growth; the highest poverty rates result from pro-rich growth. With the exception of East Asia—driven by the PRC—the incidence of extreme poverty can be expected to remain close to double digits (8.6%) under the pro-rich scenario even in 2020. In terms of the numbers of poor, the difference between a pro-rich and pro-poor scenario for distribution amounts to almost 150 extra million people living in extreme poverty in developing Asia (i.e., 333.8 million versus 188.1 million extremely poor people). In South Asia, our projected rates of \$1.25 poverty can differ by 5.5 percentage points depending on whether the growth path from 2008 to 2020 is pro-poor or pro-rich. In the case of the PRC the difference between a pro-poor and a pro-rich policy would determine whether the country will have totally abolished extreme poverty or whether it still has 17 million extremely poor people.

By 2020, Vulnerability to Poverty Will Remain a Formidable Development Challenge. Appendix 3b provides information for \$2 moderate poverty. Even in the best-case scenario of a pro-poor distribution, there would remain 943 million poor in developing Asia (Appendix 4B). Of course, this would still represent a dramatic improvement over the situation in 2005 where 54% of the region's population lives under \$2 a day. But more than one out of every four Asian women, men, and children will still be forced to live in poverty.

²⁸ In particular, we assume that quintiles 1 and 2 each experience growth of 5 percentage points more than the total mean growth in per capita expenditures between 2005 and 2020. This implies a corresponding lower country-specific growth for the fifth quintile for the total growth to be unchanged from the projected growth of per capita expenditures.

Figure 6: Poverty Projections for Asia and the Pacific (Benchmark Distribution)

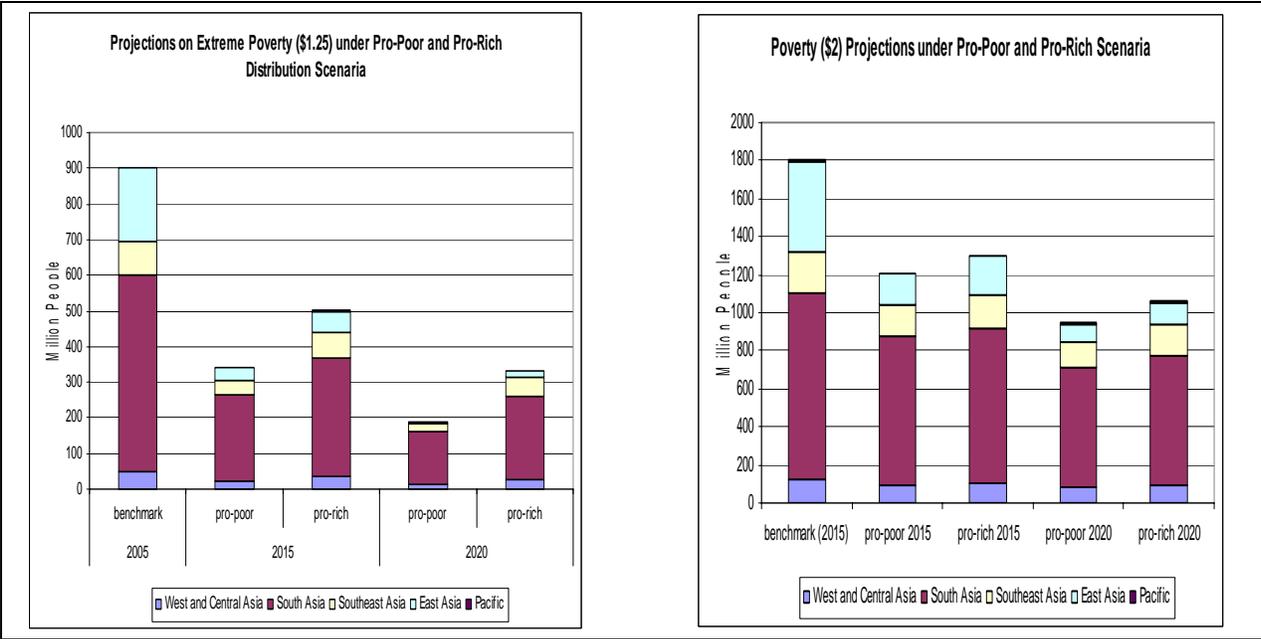


Source: Authors' estimates, based on World Bank PovCalNet data (October 2008).

There is Nothing Automatic about Poverty Reduction—Trickle Down is Obsolete and Pro-Poor Policies Matter. While the methodology used in generating these numbers could be criticized as simplistic, it is useful for reminding us that while sustaining economic growth is imperative for poverty reduction, policies that make growth more inclusive remain the gold

standard that policy makers should pursue in so far as poverty reduction is concerned. That appeals for a more pro-poor development policy. Appendix 4 provides poverty estimates for pro-poor and pro-rich development paths. Figure 7 is a summary of the poverty projections under pro-poor and pro-rich scenario. It shows that distribution matter, particularly to address extreme poverty, while pro-poor policies may be more important for addressing vulnerability and moderate poverty (\$2). As the comparison of the PRC and India shows, population policy is a major contributor to poverty reduction.²⁹ So are other policies such as geographical targeting. When lower income groups benefit from the wealth of a society (both income as well as social and environmental), growth and social development are inclusive. In addition, inclusive growth also requires equal distribution of the benefits of growth. Hence, for countries with continuously high growth rates, the \$2 poverty line is a good indicator for measuring the absolute inclusiveness of a country. And to determine the progress in poverty reduction not only the percentage change counts but also the number of absolute poor who are still vulnerable to poverty. From this perspective, there is still a lot of scope to make poverty reduction in Asia and the Pacific more successful through inclusive policies, as only a few countries in the region have so far been able to promote a development path where less than one third of their population is secured to have a somewhat decent live with more than \$2 a day per person to spend for basic necessities (Figure 8).

Figure 7: Poverty Projections under Pro-Poor and Pro-Rich Scenarios



Source: Authors' estimates, based on World Bank PovCalNet data (October 2008).

²⁹ Our poverty projections are based on population estimates as given in PovcalNet and population projections from UN World Population Prospects. See Appendix 5.

Figure 8: Inclusiveness of Growth: Which Countries show Greater Results?

Population living on less than \$2 a day	
More than two third	Bangladesh, Cambodia, Lao PDR, India, Nepal, Pakistan (60%), East Timor, Uzbekistan
About half	Bhutan, PRC, Indonesia, Kyrgyz Republic, Philippines, Papua New Guinea, Tajikistan, Viet Nam
About one third	Armenia, Georgia, Mongolia, Sri Lanka, Turkmenistan
Less than 10%	Azerbaijan, Kazakhstan, Malaysia, Thailand

Source: Authors' analysis, based on World Bank PovCalNet data (Oct 2008).

5. Implications for the Asian Development Bank

Poverty Reduction is By No Way a Finished Business. More than one fourth (and not less than one fifth) of Asia's population live in extreme poverty (\$1.25) and more than half of the population are moderately poor (\$2). The World Bank update suggests that MDG 1 is unlikely to be reached in many Asian countries. Poverty reduction remains a major challenge for Asian governments. With new development emerging from migration, aging, climate change, soaring fuel and food prices, and urbanization, and with growth sliding down and the beginning of a world recession affecting Asia, countries in the region are fighting an uphill battle against poverty.

Strategy 2020 Needs Operational Targets for Poverty Reduction and Inclusive Growth. In 1999, ADB adopted poverty reduction as overarching goal of all its operations. ADB's Strategy 2020 confirmed that poverty reduction remains ADB's overarching goal. However, unlike at the beginning of the millennium, its operational and knowledge work today is less focused on achieving direct poverty reduction impact, and indirect impact contributions through general interventions are less rigorously monitored and analytically grounded. Being the region's development bank, ADB will need to find new ways to contribute more effectively to its partner countries' enhanced focus on poverty reduction and inclusive growth. Strategy 2020 provides a good entry point. However, strategic directions for linking ADB's investment, knowledge, and policy support to making the region's growth path more inclusive (one of the three pillars of Strategy 2020) are weakly formulated. Countries all over the region are increasingly investing in pro-poor infrastructure in regions where the poor live, setting up more comprehensive health and old-age insurance systems, promoting social protection schemes to address livelihood and climate-related vulnerabilities; facilitating shelter, slum upgrading, and the promotion of small town development in growth potential rural areas; and regaining investment in agriculture and rural development. Together with the private sector, governments are setting up new labor markets, training, and employment schemes to enhance income opportunities for the poorer strata of the society. ADB needs to align its operational and knowledge support better to such pro-poor investments and capacity development activities of partner countries.

Adopting the New Poverty Figures. A first stage for ADB's renewed engagement in poverty reduction and inclusive growth through Strategy 2020 would be adopting the new poverty data for the region, being much higher than earlier estimated. It is important to point out that only two Asian countries—Nepal and Tajikistan—are included in the 15 poorest countries in the World Bank's estimate. Applying the same World Bank methodology to Asia, a higher poverty threshold of \$1.35—with even higher poverty figures—is obtained for Asia and the Pacific. Furthermore, many countries in the region have poverty lines higher than the \$1.25. For global and regional comparisons, we suggest using this international threshold. For discussions at the

country level, we suggest using the respective national poverty lines, but also compare this with the poverty incidence based on the international threshold for extreme poverty (\$1.25) and moderate poverty (\$2).

Moving to the \$2 Poverty Line. More than half of Asia's population lives on less than \$2 a day. The \$2 poverty line is the average of all developing countries' poverty threshold worldwide. Emerging middle income countries in Asia (such as Malaysia or Thailand) and in Central Asia and the Caucasus have already adopted poverty lines close to \$2 or above. Strategy 2020 also refers to \$2 poverty and thus goes beyond the approach taken in ADB's *Poverty Reduction Strategy* of 1999.³⁰ Strategy 2020 broadens ADB's business on poverty reduction toward addressing inclusive growth, meaning that ADB—apart from sustaining growth in the regions—shall focus particularly on improving the living conditions for the lower income groups by providing opportunities for them to participate in growth and by guaranteeing social protection for those left behind from the growth process. As a result, ADB may wish to report more consistently on both its impact contribution to reduce extreme poverty (\$1.25) as well as moderate poverty (\$2) in the region.

Reporting the Multidimensionality of Poverty and Social Exclusion through Enhanced MDG Indicators. Poverty is multidimensional. The \$1.25 poverty line does not properly reflect the living situations of the majority of Asian's poor. In addition to using the \$2 poverty line, ADB may come up with a set of key indicators for social and environmental poverty that secure a decent living for all.³¹ Such indicators may be closely aligned with the MDGs. Particularly, MDG 7 (the environmental MDG) needs to be further refined to better reflect environmental poverty in its spatial dimension. ADB's results framework too needs to be strengthened by adding indicators to show ADB's contribution to partner countries' outcomes on income poverty, social poverty, social inclusion and protection, and the environments of the poor.

Considering Purchasing Power Parities of the Poor. The methodology to compare PPPs between countries can be further refined by using PPP data that apply to the consumption basket (quantity, quality, and product choice) of the poor rather than the general population. As part of the International Comparison Program (ICP) in 2005, ADB constructed poverty-specific PPPs for 16 Asian countries. ADB, through its Economic Research Department, may wish to influence its partner institutions (especially the World Bank) so that in the prospective ICP 2011 PPPs of the poor will be used to estimate poverty in the region.

Applying a Geographical Approach to Poverty Reduction while Considering Pro-Poor Growth Potential Areas. The poor typically live in remote areas. Some areas have pro-poor growth potentials, others do not. Another dimension of poverty in Asia is migration, where poor people move to regions and often cities where they expect a higher potential to increase their income. We suggest introducing spatial dimensions into the poverty discussion, which go beyond the rural–urban divide. ADB, during country strategy formulation, may wish to strengthen its analysis on the proper location of projects and suggest design directions that more suitably contribute to the location of poverty and pro-poor growth. For example, climate change adaptation investments in the areas where poor people used to live before moving to urban slums may not have much impact on the poverty situation. Rather, broader investment in

³⁰ ADB. 1999. *Fighting Poverty in Asia and the Pacific: The Poverty Reduction Strategy*. Manila: ADB.

³¹ Using such information in its reporting system, ADB would thus go beyond the narrow definition of income poverty reflecting expenditures for food (equivalent to 2,000–2400 kcal per person per day) plus basic expenditures for housing and clothing.

slum development (mostly related to housing, slum upgrading, and urban planning, rather than confined mainly to drinking water and sanitation) would be more useful.

Consider Better the Environments of the Poor. Applying a geographical approach to inclusive growth may also have consequences for ADB's work on the environment, one of the five core operational areas of Strategy 2020. ADB may strengthen its "environmental poverty" perspective³² by analyzing poverty and vulnerability based on the living areas that affect lower income groups' well-being. As a result, the poor may be classified as those living in pro-poor growth potential areas, and those living in areas where there is little potential for inclusive growth. The latter may comprise (i) the dryland poor (i.e., those living on arid and desert land areas); (ii) the flood-affected wetland poor (i.e., those in wetland areas who are frequently affected by flooding); (iii) the upland poor (those living in upland or mountainous areas that are remote); (iv) the coastal poor (those living adjacent to coasts and dependent upon coastal and/or marine resources); and (v) the slum poor (those living in substandard settlements with high exposure to urban pollutants.³³ While lack of income opportunities is still a major reason for poverty even in areas where there is economic growth, the environments of the poor are increasingly important. Asia and the Pacific may continue to be successful in reducing poverty in its income and social dimensions; however, the environment will become the top cause of poverty in the coming decades. By 2020, about 70% (up from 53% today) of the very poor and 62% of the moderately poor will live in areas where the environment is the primary cause of poverty.³⁴ Climate change is further aggravating poverty, especially in dryland and disaster-prone areas, while dimensions of globalization (food and fuel price increases and migration) will particularly worsen slum poverty. Current discussions on global warming focus mainly on the environmental perspective, resulting in emphasis in supporting large and emerging middle-income countries with high carbon dioxide emissions through the energy sector for mitigating climate change. Such interventions, however, gain little immediate poverty reduction results. Rather, where the environment is the primary cause of poverty, one would have to focus more on climate change adaptation-related (instead of mitigation) programs in dryland, upland, coastal, and flood-affected wetland areas that make growth and social development more inclusive. In addition, rather than financing through development assistance mass transport systems for the urban middle classes, poverty-focused investments should move toward urban traffic management, shelter, and programs to improve low-cost and small-distance transport systems, thereby dealing with the health and congestion concerns of the slum poor.

Develop a Business Plan for Poverty Reduction. In May 2008, ADB adopted its new long-term strategic framework 2008–2020. The *Poverty Reduction Strategy of 1999*, enhanced in 2004,³⁵ was introduced to formulate the overarching development goal of ADB. This was then followed by the first long-term strategic framework (in 2001) as operational plan to implement the poverty reduction strategy. With the adoption of Strategy 2020 in May 2008, this document became ADB's corporate-wide planning document. The enhanced Poverty Reduction Strategy of 2004 is still an important policy statement, but it needs to be interpreted in the context of ADB's Strategy 2020. This document confirms poverty reduction as the overarching strategic

³² Bauer, Armin. 2008. *The Environments of the Poor: A Geographical Approach to Poverty Reduction in Asia and the Pacific*. Available: www.povertyenvironment.net/pep/?q=filestore2/download/1848/Bauer%20_June%2008_%20The%20Environments%20of%20Poverty%202.pdf

³³ Poor people affected by natural disasters (the disaster poor) can mostly be incorporated into the above-mentioned categories.

³⁴ See forthcoming ADB publication with updated numbers on the environments of the poor based on recent World Bank PovCalNet figures.

³⁵ ADB. 2004. *Enhancing the Poverty Reduction Strategy*. Manila: ADB.

vision for ADB, and refocuses ADB's development contribution in three strategic areas: (i) making growth and social development in the region more inclusive by addressing regional disparities and the infrastructure backlog, facilitating more private sector partnerships and support, expanding human capacities through education, and by promoting gender equity and social protection; (ii) environmental sustainability of growth by addressing climate change and mitigation, the use of more environment-friendly technologies, the adoption of environmental safeguards, and the strengthening of environmental capacities; and (iii) enhanced regional integration and cooperation. While Strategy 2020 provides clear strategic and investment guidance for the growth, environment, and regional cooperation topics, it is somewhat weak in setting targets for ADB's contribution to inclusiveness. ADB's poverty reduction strategy of 1999 (enhanced in 2004)³⁶ would therefore need to be aligned with Strategy 2020 in describing how ADB will contribute more effectively to making economic growth and social development in the region more inclusive, thereby addressing vulnerability and \$2 poverty. Appendix 6 gives suggestions for operationalizing poverty reduction and inclusive growth in the context of Strategy 2020. It discusses (i) the importance of monitoring indirect and direct contributions to poverty reduction; (ii) the need to adopt the \$2 poverty line; (iii) suggestions for targeting pro-poor growth potential areas; (iv) suggestions for quantifying ADB's contributions to poverty reduction and inclusive growth through its project classification system; (v) the urgency to promote selective investments in social, rural, and urban sectors within the Strategy 2020 core areas of operations; (vi) the importance of addressing climate change adaptation of the poor; (vii) the concretization of social protection as one of the three core elements of inclusive growth by linking it to investments in the financial sector; (vi) the need to focus more on strengthening the role of institutions (including gender dimensions) for poverty reduction; (vii) the increasing importance of the private sector for poverty reduction and inclusive growth³⁷; and (viii) the need for better analysis and reporting on impact contributions.

Focus on Implementation Rather than Policies. The enhanced poverty reduction strategy emphasizes the need for upstream policy analysis and influencing. Since the early 2000s, most partner governments—also with ADB support—have already established well-functioning poverty reduction strategies. It is therefore time to move beyond policies and toward implementation. To this end, rather than getting involved in the policy and strategy formation process of partner governments, ADB would need to monitor more closely its own contribution to poverty reduction. Earlier, ADB had introduced impact assessment tools and made reporting on poverty and social impact mandatory for all investment projects. However, the quality of those summary poverty and social assessments is often questionable and its mandatory use is sometimes neglected. New financial modalities such as the multitranche financing facility and the increased emphasis on programmatic support³⁸ provide new opportunities for ADB staff to apply sound development impact analysis at the sector level. A poverty policy aligned with Strategy 2020 would substantially strengthen analytical capabilities and reporting on poverty reduction at the project or sector level.

³⁶ See ADB. 1999. *Fighting Poverty in Asia and the Pacific. The Poverty Reduction Strategy of the Asian Development Bank*. Manila. Available: www.adb.org/Documents/Policies/Poverty_Reduction/Poverty_Policy.pdf; and ADB. 2004. *Enhancing the Fight against Poverty in Asia and the Pacific*. Manila. Available: www.adb.org/Documents/Policies/Poverty_Reduction/2004/default.asp

³⁷ Strategy 2020 aims at ADB's contribution to private sector investments and development being up to half of its total investments by 2020.

³⁸ Budget support and program-based lending comprise about 25% of ADB's newly approved public sector investments.

Appendix 1

New Poverty Data for Asian Countries

Poverty in Asia and Pacific: Latest Estimates													
	National Poverty Lines					International Poverty Lines							
	National Poverty Lines from Latest Country Documents			National Poverty Lines Equivalent (World Bank Estimates in 2005 PPP USD)		Old Estimates				New Estimates (2005 PPP)			
	Poverty Incidence	Year	Indicators	Year of Survey	Per Capita per Day in USD	Based on \$1 (1993 PPP)		Based on \$2 (1993 PPP)		\$1.25 (World Poverty Line)		\$2.0 (Vulnerability Line)	
						Number of People (Million)	% of Population	Number of People (Million)	% of Population	Number of People (Million)	% of Population	Number of People (Million)	% of Population
Central and West Asia	32.4%					48.65	19.1%	170.4	0.52796	49.360	21.50	123.554	48.54
Afghanistan	45.0%	2005				13.03	52.0%	17.5	80.0%	n.a.	n.a.	n.a.	n.a.
Armenia	26.5%	2006	21,555 AMD per capita/month	1998/99	2.45	0.05	1.7%	0.9	30.3%	0.143	4.74	0.881	29.18
Azerbaijan	49.0%	2001	175000 azm/month	2001	2.83	0.16	1.9%	2.8	33.3%	0.003	0.03	0.023	0.27
Georgia	52.7%	2004		1997	3.71	0.28	6.4%	1.2	25.8%	0.601	13.44	1.360	30.42
Kazakhstan	16.1%	2004	5427 tenge/ month	1996	3.18	0.13	0.9%	2.6	17.1%	0.174	1.15	1.574	10.39
Kyrgyz Republic	43.0%	2005	7648 soms/year	2003	2.03	0.22	4.3%	1.2	23.5%	1.121	21.81	2.669	51.93
Pakistan	32.1%	2001	670 Rs/capita/month	1998/99	1.69	30.69	19.7%	92.7	59.5%	35.188	22.59	93.945	60.31
Tajikistan	44.0%	2003	20000 Tajik rubles/month	1999	1.96	0.39	5.9%	2.8	42.5%	1.408	21.49	3.333	50.88
Turkmenistan	29.9%	1998				0.22	4.6%	32.0	44.0%	0.566	11.72	1.521	31.49
Uzbekistan	27.5%	2007	3601 soums/month	2000/01		3.48	13.3%	16.8	63.1%	10.157	38.81	18.248	69.73
South Asia	25.3					389.34	30.1%	1009.4	78.6%	550.185	42.47	978.830	75.55
Bangladesh	49.8%	2000		2000	1.05	46.44	30.3%	112.7	79.5%	77.360	50.47	123.115	80.32
Bhutan	36.3%	2000	Nu 748.1 per capita/month			0.21	32.6%	0.7	80.0%	0.171	26.79	0.321	50.14
India	22.0%	2004		1999/00	0.83	336.04	30.7%	873.5	79.8%	455.803	41.64	827.690	75.62
Maldives	16.0%	2005				0.00	1.0%	0.0	2.9%	n.a.	n.a.	n.a.	n.a.
Nepal	30.9%	2004	4,404 NRs/capita/year	2003/04	0.88	6.45	23.8%	17.6	65.0%	14.818	54.70	20.938	77.29
Sri Lanka	25.9%	1996	950 SLRs/capita/month	2002	1.51	0.20	1.0%	4.8	24.3%	2.032	10.33	6.766	34.40
Southeast Asia	19.5					56.32	10.3%	258.9	47.4%	93.397	18.80	221.468	40.49
Cambodia	34.7%	2004	54,050 KR/capita/month	2004	1.43	4.72	33.8%	10.9	77.3%	5.611	40.19	9.521	68.20
Indonesia	16.7%	2004	122,775 Rp/capita/month	1999	1.09	14.34	6.5%	111.4	50.5%	47.291	21.44	118.664	53.80
Lao PDR	32.9%	2003	92,959 KN/capita/month	1997/98	1.07	1.63	28.8%	4.4	74.4%	2.019	35.68	3.983	70.37
Malaysia	5.1%	2002				0.05	0.2%	2.2	8.8%	0.139	0.54	2.003	7.81
Myanmar	26.6%	2001				15.16	30.0%	30.3	60.0%	n.a.	n.a.	n.a.	n.a.
Philippines	27.6%	2006	11,620 PhP/capita/year	1988	1.53	11.92	14.1%	36.9	44.4%	19.130	22.62	38.090	45.04
Thailand	14.4%	2002		1992	1.92	0.44	0.7%	17.9	27.8%	0.252	0.40	7.258	11.52
Viet Nam	19.5%	2004		2002	1.08	8.06	9.7%	45.0	54.2%	18.955	22.81	41.949	50.48
East Asia						196.16	15.0%	544.3	41.6%	208.254	15.93	474.917	36.34
Mongolia	36.1%	2003	24743 tugrug/mo	2002/03	1.93	0.48	18.9%	1.6	63.9%	0.571	22.38	1.251	49.05
People's Republic of China	1.9%	2007	785 RMB rural poverty line	2002	0.86	195.68	15.0%	542.7	41.6%	207.683	15.92	473.666	36.31
Pacific						2.43	26.5%	4.864	52.6%	2.230	24.34	3.787	41.34
Cook Islands						0.00	30.0%	0.007	50.0%	n.a.	n.a.	n.a.	n.a.
Fiji	54.5%	2005				0.21	25.5%	0.414	50.0%	n.a.	n.a.	n.a.	n.a.
Kiribati						0.03	38.0%	0.055	60.0%	n.a.	n.a.	n.a.	n.a.
Marshall Islands						0.01	20.0%	0.023	40.0%	n.a.	n.a.	n.a.	n.a.
Federal States of Micronesia						0.01	5.2%	0.022	19.7%	n.a.	n.a.	n.a.	n.a.
Nauru						0.00	15.0%	0.005	50.0%	n.a.	n.a.	n.a.	n.a.
Palau						0.00	12.0%	0.006	30.0%	n.a.	n.a.	n.a.	n.a.
Papua New Guinea	38.0%	1998	461 Kina/capita/year			1.83	30.2%	3.302	54.4%	1.803	29.70	3.098	51.04
Samoa						0.01	5.5%	0.074	40.0%	n.a.	n.a.	n.a.	n.a.
Solomon Islands						0.06	12.0%	0.236	50.0%	n.a.	n.a.	n.a.	n.a.
Timor Leste	41.2%	2003				0.20	20.0%	0.640	60.0%	0.427	43.56	0.689	70.33
Tonga						0.00	4.0%	0.012	12.6%	n.a.	n.a.	n.a.	n.a.
Tuvalu						0.00	17.2%	0.003	30.0%	n.a.	n.a.	n.a.	n.a.
Vanuatu						0.06	26.0%	0.065	30.0%	n.a.	n.a.	n.a.	n.a.
Developing Asia and the Pacific						692.89	20.3%	1,987.8	57.29%				
25 countries in the region covered by the World Bank survey						664.30	19.9%	1,939.03	58.1%	903.43	27.09	1,802.56	54.04

PPP = Purchasing Power Parity

Notes: (1) The \$1.25 a day represents the international poverty line for extreme poverty. Poverty estimates are based on PPP for the year 2005. The \$2 poverty line represents the median poverty line of 74 countries worldwide at 2005 PPP. (2) In the World Bank data, Pakistan is part of South Asia. Hence aggregated data in this table may differ from World Bank figures as the World Bank and ADB have different regional country grouping. (a) estimated

Sources: Poverty data are from the World Bank's PovCalNet (historical date and October 2008 version [see POVCAL website at <http://research.worldbank.org/PovcalNet/jsp/index.jsp>]); national poverty line data are from various national documents as well as ADB and World Bank poverty assessments; national poverty lines converted in 2005 PPP are from M. Ravallion / S. Chen / P. Sangraula (May 08): Dollar a Day Revisited. World Bank;

Source: Authors' estimates based on World Bank PovCalNet (October 2008 for 2005 PPP data, and February 2008 for 1993 PPP data), and data from national poverty reduction strategies.

Appendix 2

Growth Rates for Projecting Poverty in Asia and the Pacific Countries

GDP Per Capita Estimates, 2005-2007 and Projected 2015 and 2020									
Country	GDP Per Capita (2005 PPP)					Growth Rates			Remarks
	2005 (a)	2006 (b)	2007 (b)	2015	2020	2006 (c)	2007 (c)	2008-2009 (d)	
Central and West Asia									
Armenia	3,903	4,434	5,056	8,569	11,917	13.6	14.0	6.8	30% less; lower remittances
Azerbaijan	4,648	6,183	7,297	13,151	19,005	33.0	18.0	7.6	50% less; previous numbers too high to sustain
Georgia	3,505	3,869	4,387	7,655	10,842	10.4	13.4	7.2	
Kazakhstan	8,699	9,528	10,223	17,016	23,398	9.5	7.3	6.6	
Kyrgyz Republic	1,728	1,758	1,870	2,341	2,694	1.7	6.4	2.9	
Pakistan	2,396	2,510	2,614	3,502	4,204	4.7	4.2	3.7	
Tajikistan	1,413	1,492	1,584	2,317	2,939	5.6	6.2	4.9	
Turkmenistan	4,247	4,557	4,889	8,044	10,980	7.3	7.3	6.4	20% less; previous numbers difficult to sustain
Uzbekistan	1,975	2,094	2,260	3,224	4,025	6.0	7.9	4.5	
South Asia									
Bangladesh	1,268	1,329	1,392	1,840	2,190	4.8	4.8	3.5	
Bhutan	3,694	3,934	4,624	7,413	9,957	6.5	17.5	6.1	
India	2,126	2,300	2,477	3,754	4,868	8.2	7.7	5.3	
Nepal	1,081	1,089	1,098	1,423	1,673	0.8	0.8	3.3	20% more because of peace dividend
Sri Lanka	3,481	3,707	3,947	5,339	6,449	6.5	6.5	3.8	
Southeast Asia									
Cambodia	1,453	1,583	1,717	2,784	3,766	9.0	8.4	6.2	
Indonesia	3,234	3,374	3,546	4,517	5,255	4.3	5.1	3.1	
Lao PDR	1,811	1,916	2,016	2,494	2,848	5.8	5.3	2.7	
Malaysia	11,466	11,928	12,401	15,544	17,902	4.0	4.0	2.9	
Philippines	2,932	3,031	3,193	3,967	4,544	3.4	5.3	2.8	
Thailand	6,869	7,170	7,465	9,923	11,855	4.4	4.1	3.6	
Viet Nam	2,142	2,289	2,453	3,552	4,476	6.9	7.2	4.7	
East Asia									
People's Republic of China	4,091	4,540	5,049	8,964	12,833	11.0	11.2	7.4	
Mongolia	2,643	2,835	3,082	4,739	6,202	7.3	8.7	5.5	
Pacific									
Papua New Guinea	1,747	1,754	1,827	2,160	2,398	0.4	4.2	2.1	Three times higher; peace dividend; expected minerals
Timor Leste	2,203	1,968	2,048	2,802	3,410	-10.7	4.1	4.0	oil, peace dividend, better governance

Notes: (a) = as reported in ICP publication of the World Bank; (b) = growth rates reported in Asian Development Outlook are used to derive these; (c) = growth rates from Asian Development Outlook; (d) = growth rates used for poverty projection computations.

Source: Authors' estimates, based on World Bank, global purchasing power parities (PPP) for 2005, and real expenditures, based on the 2005 International Comparison Program Program for 2005 Gross Development Product (GDP) per capita data; and ADB's Asian Development Outlook 2008

Appendix 3

Projections of Gini Coefficients in Asia and the Pacific

Projecting Gini Coefficients for 2020				
	Base year of the survey	Pro-Poor	Baseline	Pro-Rich
Central and West Asia				
Armenia	2003	33.05	33.8	35.33
Azerbaijan	2005	15.84	16.85	17.68
Georgia	2005	40.07	40.61	42.24
Kazakhstan	2003	32.93	33.67	35.31
Kyrgyz Republic	2004	31.86	32.93	35.27
Pakistan	2005	30.00	31.07	33.18
Tajikistan	2004	32.53	33.42	35.35
Turkmenistan	1998	40.03	40.65	42.57
Uzbekistan	2003	34.95	36.62	38.66
South Asia				
Bangladesh	2005	30.01	31.01	33.19
Bhutan	2003	46.32	46.83	48.95
India (Rural)	2005	29.50	30.42	32.20
India (Urban)	2005	36.82	37.58	39.58
Nepal	2004	46.58	47.30	47.49
Sri Lanka	2002	39.92	41.06	43.07
Southeast Asia				
Cambodia	2004	41.26	41.92	43.87
Indonesia (Rural)	2005	28.22	29.38	31.49
Indonesia (Urban)	2005	37.47	39.84	42.49
Lao PDR	2002	31.40	32.49	34.81
Malaysia	2004	36.77	37.68	40.18
Philippines	2006	43.28	44.04	46.97
Thailand	2004	41.50	42.28	44.89
Viet Nam	2006	36.99	37.78	39.91
East Asia				
People's Republic of China (Rural)	2005	35.16	35.81	37.38
People's Republic of China (Urban)	2005	33.94	34.61	36.11
Mongolia	2005	32.05	32.85	34.59
Pacific				
Papua New Guinea	1996	50.43	50.88	52.31
Timor Leste	2001	38.63	39.52	42.17

Note: We assume in all cases that the middle 40% experiences growth in per capita consumption expenditures equal to mean growth. A pro-poor (pro-rich) distribution is where the bottom 40% (top 20%) see their per capita expenditures grow 5% more than the mean while the top 20% (bottom 40%) see their per capita expenditures grow proportionally less than the mean. The baseline scenario represents the distributional pattern of 2005.

Source: Authors' estimates, based on World Bank PovCalNet data (Oct 2008)

Appendix 4

4A: Projections on Extreme Poverty for Asia and the Pacific Regions

		Projections for Extreme Poverty (\$1.25)						
		2005 Benchmark	2015 Benchmark Pro-Poor Pro-Rich		2020 Benchmark Pro-Poor Pro-Rich			
West and Central Asia (ARM, AZE, GEO, KAZ, KGZ, PAK, TAJ, TKM, UZB)	percent of population	21.5	10.3	8.1	13.4	6.1	4.7	9.2
	million people	49.4	27.8	21.7	36.2	17.6	13.7	26.6
South Asia (BAN, BHU, IND, NEP, SRI)	percent of population	42.5	19.1	16.2	22.3	10.7	9.2	14.7
	million people	550.2	284.9	241.9	332.0	168.7	145.8	232.9
Southeast Asia (CAM, IND, LAO, MAL, PHI, THA, VIE)	percent of population	18.8	10.1	7.3	12.4	6.6	4.5	9.2
	million people	93.4	56.7	40.8	69.7	38.6	26.4	54.2
East Asia (MON, PRC)	percent of population	15.9	2.8	2.6	4.3	0.8	0.0	1.2
	million people	208.3	39.3	35.5	59.7	11.4	0.1	17.5
Pacific (PNG, TIM)	percent of population	31.6	26.1	24.7	30.5	23.0	21.6	27.8
	million people	2.2	2.3	2.2	2.7	2.2	2.1	2.7
Asia and the Pacific total	percent of population	27.1	11.0	9.2	13.5	6.1	4.8	8.6
	million people	903.4	410.8	342.1	500.4	238.4	188.1	333.8

4B: Projections on Vulnerability for Asia and the Pacific Regions

		Projections for \$2 poverty (million people)						
		2005 benchmark	2015 benchmark pro-poor pro-rich		2020 benchmark pro-poor pro-rich			
West and Central Asia (ARM, AZE, GEO, KAZ, KGZ, PAK, TAJ, TKM, UZB)	percent of population	53.8	36.8	35.5	38.8	29.2	27.6	31.6
	million people	123.6	99.1	95.6	104.4	84.7	80.2	91.8
South Asia (BAN, BHU, IND, NEP, SRI)	percent of population	75.6	53.4	52.6	54.2	41.3	40.2	43.2
	million people	978.8	795.9	783.4	808.6	653.7	636.0	683.6
Southeast Asia (CAM, IND, LAO, MAL, PHI, THA, VIE)	percent of population	44.6	30.8	28.1	32.9	25.3	22.2	27.8
	million people	221.5	172.5	157.5	184.3	149.0	130.7	163.9
East Asia (MON, PRC)	percent of population	36.3	12.8	12.2	14.5	7.0	6.5	8.1
	million people	474.9	177.5	170.0	201.5	99.5	92.3	115.7
Pacific (PNG, TIM)	percent of population	53.7	47.9	47.2	49.6	44.5	43.7	46.6
	million people	3.8	4.2	4.1	4.3	4.2	4.2	4.4
Asia and Pacific total	percent of population	54.0	33.6	32.6	35.0	25.4	24.2	27.2
	million people	1,802.6	1,249.1	1,210.6	1,303.1	991.2	943.4	1,059.5

ARM = Armenia, AZE = Azerbaijan, BAN = Bangladesh, BHU = Bhutan, CAM = Cambodia, GEO = Georgia, INO = Indonesia, IND = India, KAZ = Kazakhstan, KGZ = Kyrgyz Republic, LAO = Lao PDR, MAL = Malaysia, MON = Mongolia, NEP = Nepal, PAK = Pakistan, PHI = Philippines, PNG = Papua New Guinea, PRC = People's Republic of China, SRI = Sri Lanka, TAJ = Tajikistan, THA = Thailand, TIM = Timor-Leste, TKM = Turkmenistan, UZB = Uzbekistan, VIE = Viet Nam.

Note: Country data are also available from the authors.

Source: Authors' estimates, based on World Bank PovCalNet data (Oct 2008).

Appendix 5

Population Projections (million people)

Country	PovCalNet		Projections		
	1990	2005	2007	2015	2020
Central and West Asia	174.400	229.487	236.635	269.384	290.356
Armenia	3.500	3.020	3.005	2.978	2.957
Azerbaijan	7.200	8.390	8.506	9.049	9.349
Georgia	5.500	4.470	4.392	4.185	4.060
Kazakhstan	16.300	15.150	15.360	16.234	16.656
Kyrgyz Republic	4.400	5.140	5.252	5.711	5.950
Pakistan	108.000	155.770	161.506	187.872	205.270
Tajikistan	5.300	6.550	6.736	7.703	8.342
Turkmenistan	3.700	4.830	4.967	5.495	5.807
Uzbekistan	20.500	26.167	26.912	30.158	31.964
East Asia	1,137.200	1,307.050	1,322.646	1,389.233	1,425.127
People's Republic of China	1,135.100	1,304.500	1,320.049	1,386.410	1,422.166
Rural	824.100	759.740	768.796	684.774	645.728
Urban	311.000	544.760	551.253	701.636	776.438
Mongolia	2.100	2.550	2.598	2.824	2.961
South Asia	999.150	1,295.260	1,335.866	1,490.700	1,580.957
Bangladesh	113.050	153.280	158.645	180.113	193.332
Bhutan	0.500	0.640	0.662	0.740	0.784
India	849.500	1,094.580	1,128.512	1,256.476	1,330.169
Rural	632.900	782.300	806.551	857.821	876.889
Urban	216.600	312.280	321.961	398.655	453.280
Nepal	19.100	27.090	28.201	32.838	35.863
Sri Lanka	17.000	19.670	19.847	20.533	20.810
Southeast Asia	391.800	496.500	510.216	560.918	588.864
Cambodia	9.700	13.960	14.449	16.646	18.107
Indonesia	178.200	220.560	226.074	245.401	255.433
Rural	123.700	114.470	117.332	101.908	95.705
Urban	54.500	106.090	108.742	143.494	159.728
Lao People's Democratic Republic	4.100	5.660	5.858	6.694	7.218
Malaysia	18.100	25.650	26.573	30.043	32.016
Philippines	61.200	84.570	87.953	101.095	108.753
Thailand	54.300	63.000	63.882	66.760	67.987
Viet Nam	66.200	83.100	85.427	94.279	99.350
Pacific	4.800	7.050	7.391	8.700	9.543
Papua New Guinea	4.100	6.070	6.331	7.319	7.937
Timor Leste	0.700	0.980	1.060	1.381	1.606
TOTAL	2,707.350	3,335.347	3,412.755	3,718.936	3,894.848

Source: Authors' estimates, based on World Bank PovCalNet data (October 2008) for 1990 and 2005, and UN World Population Prospects for projected rates of population rates.

Appendix 6

Operationalizing Poverty Reduction and Inclusive Growth in the Context of Strategy 2020

In May 2008, ADB adopted its ADB adopted poverty reduction as its overarching goal in 1999 with the introduction of the poverty reduction strategy, enhanced in 2004. With the adoption of new long-term strategic framework 2008–2020 (Strategy 2020),³⁹ this document became ADB's corporate-wide planning document. As a result, the enhanced strategy needs to be newly interpreted in the context of Strategy 2020. This document confirms poverty reduction as the overarching strategic vision for ADB, and refocuses ADB's development contribution on three strategic areas of inclusive growth, environmentally sustainable growth, and regional cooperation. While Strategy 2020 provides clear strategic and investment guidance for the growth, environment, and regional cooperation topics, it is somewhat weak in setting targets for ADB's contribution to inclusiveness. ADB's poverty reduction strategy⁴⁰ would therefore need to be better aligned with Strategy 2020 in describing how ADB will contribute more effectively to making economic growth and social development in the region more inclusive, thereby addressing vulnerability and \$2 poverty. To this end, one would need to explain the following.

Indirect and Direct Contributions to Poverty Reduction in Strategy 2020. A policy for poverty reduction aligned with Strategy 2020 would confirm that all ADB operations can contribute to poverty reduction and inclusive growth in the region in either a direct (targeting people, strategic goals [Millennium Development Goals] and areas) or a more indirect way. It would also confirm that the poverty reduction impact of ADB's contribution manifest at the country level through aggregate contribution of ADB investment projects, knowledge solutions, and policy advice to poverty reduction. Hence, poverty impact chains between the project and the country partnership strategy need to be established for each intervention. Thus, poverty impact assessment at the project level—a major tool in current ADB loan processing—would need to be strengthened and made more effective for investment and strategy decisions.

Adopt the \$2 Poverty Line. Strategy 2020 widens ADB's understanding of poverty toward inclusive growth. This means that ADB contributes to the strategic impact on the economic, social, and governance-related inclusion of the lower income groups (i.e., the very poor and the moderately poor). It will thus help reduce the vulnerability to extreme poverty in Asia and the Pacific, where many countries are emerging as middle-income countries.

³⁹ ADB. 2008. *Strategy 2020. The Long-term Strategic Framework of the Asian Development Bank 2008–2020 (LTSF II)*. Manila. Available: www.adb.org/Media/Articles/2008/12440-adb-strategies/default.asp

⁴⁰ ADB. 1999. *Fighting Poverty in Asia and the Pacific. The Poverty Reduction Strategy of ADB*. Manila. Available: www.adb.org/Documents/Policies/Poverty_Reduction/Poverty_Policy.pdf; and ADB. 2004. *Enhancing the Fight against Poverty in Asia and the Pacific*. Manila. Available: www.adb.org/Documents/Policies/Poverty_Reduction/2004/default.asp

Target areas. The 2004 Enhanced Poverty Reduction Strategy de-emphasized the need for poor household targeting. The new policy would need to push this argumentation further to assess ADB's contribution to address geographical and social (MDG-related) dimensions of poverty and vulnerability (\$2). It would also strengthen the impact of environmental and climate change-related interventions on people (rather than nature alone), thereby contributing to poverty and inclusive growth.

Measure ADB Contributions of Core Operational Areas to Poverty Reduction and Inclusive Growth. Strategy 2020 calls for focusing ADB's operation on three sectors (economic infrastructure, finance, education) and two thematic areas (the environment and climate change, and regional cooperation). In addition, it calls for upscaling private sector development and operations. Social (except education), rural (beyond irrigation infrastructure), and urban (beyond economic infrastructure) sectors as well as governance, gender equity—together with knowledge solutions and partnerships—are seen as drivers of change. Strategy 2020 misses to explain—through impact chains—how those new priority sectors contribute to ADB's inclusiveness agenda. While not naming development and poverty challenges in the region, Strategy 2020 misses strategic orientation on how those can be addressed within the core and other strategic areas. A poverty policy aligned with Strategy 2020 would explain, for example, the role of the financial sector to address social protection and vulnerability, the role of infrastructure to address urban poverty, the role of education in generating more inclusive labor markets, and ADB's role in health and rural development to facilitate inclusive growth. This would have implications also for adopting more poverty and inclusive growth relevant indicators in ADB's results framework.

Promote Again the Social, Rural, and Urban Sectors. Strategy 2020 discusses the new challenges of aging, migration, urbanization, persistent rural poverty, globalization and inflation, financing of human development, and vulnerability to natural disasters because of climate change. While the document does not forbid innovative ADB support in those sectors, a poverty reduction policy aligned with ADB's Strategy 2020 would need to show strategic linkages for ADB investments in Strategy 2020 core and other sectors that have impact on rural and urban development in areas where the poor live and work, and on social protection and vulnerability.

Address Vulnerability and Social Protection as One of the Three Core Elements of Inclusive Growth. Explain specifically how ADB can address in the context of Strategy 2020—through social sectors and social protection—rural and urban poverty and vulnerability. Integrate also suggestions on how to mainstream disaster and emergency assistance to be effective to protect the rural and urban poor in the future. Furthermore, explain the role of ADB in addressing new challenges in the region of aging, migration, and in innovative health and education financing.

Strengthen again the role of institutions for poverty reduction. Governance and capacity building was a major development agenda of ADB in the last decade. Institutional and participation aspects of development are now increasingly mainstreamed into discussions on sector governance, decentralization, public sector reforms, and development effectiveness. Based on Strategy 2020, a new poverty policy would need to explain how ADB can strengthen its involvement in these areas to address poverty reduction and

inclusive growth through better government development agenda. A similar approach would need to be taken to the gender agenda. It would also explain the roles of the public and the private sectors “partner and agent for change” toward more effective poverty reduction and development.

Stimulate Private Sector to Contribute More to Poverty Reduction and Inclusive Growth. Strategy 2020 calls for scaling up private sector development and private sector operations to 50% of ADB financial inputs by 2020. The guiding principles would need to recommend how this would affect lower income groups. Of particular importance is the role of public–private partnerships in the delivery of basic services (including tariff setting and service relevance and qualities), inclusive labor markets, financial services for the poor, the expansion of private sector to reach the consumption demand of lower income groups, and how ADB will promote corporate social responsibilities.

Reporting on Impact Contributions. To support the implementation of Strategy 2020, ADB has established a results framework, monitoring outcomes at country level, for ADB-financed outputs in key sectors, and its operational and organizational effectiveness. The results framework does not, however, monitor ADB’s financial contribution to strategic development outcomes (such as growth and private sector development, the environment, governance and capacity development, social development and gender, and regional cooperation) and to direct or indirect poverty reduction impacts, including the MDGs. A poverty policy aligned with Strategy 2020 and its result framework would complement this by a monitoring system that reports on ADB’s financial contribution to those goals. A refined project classification system that is currently in discussion would be the basis for such reporting. When poverty reduction remains the overarching goal of ADB, and Strategy 2020 refocuses ADB on inclusive growth, ADB’s contribution to poverty reduction and inclusive growth should be specifically reported on complementing the development effectiveness reports with biannual poverty reduction and inclusive growth reports. ADB’s Regional and Sustainable Development Department (RSDD), as the strategic knowledge department closely linked to operations and hosting both sector and thematic units (including the poverty agenda), would have a specific role in such reporting.

Focus on Implementation Rather than Policies. Since the early 2000s, most partner governments, also with ADB support, have established well-functioning poverty reduction strategies and monitoring. To move beyond policies toward implementation, ADB would need to monitor much more closely its contribution to poverty reduction at the sector and project levels, and at the level of its financial, advisory, and knowledge contribution to country results on poverty reduction. Earlier, ADB has introduced impact assessment tools and made reporting on poverty and social impact mandatory for all investment projects. However, the quality of those summary poverty and social assessments is often questionable and its mandatory use is sometimes neglected. New financial modalities and the enhanced attention to private sector lending provide new opportunities for ADB staff to adjust development impact assessment and apply them at the sector level. A poverty policy aligned with Strategy 2020 would substantially strengthen analytical capabilities and reporting on poverty reduction at the project or sector level.