



Cooperation Fund between the Asian Development Bank (ADB) and the Netherlands Ministry for Development Cooperation

in Support of the Formulation and Implementation of National Poverty Reduction Strategies (NPRS-Fund)

FIRST SEMI-ANNUAL PROGRESS REPORT

30 September 2002

I. INTRODUCTION

1. The first semi-annual progress report of the *Cooperation Fund in Support of the Formulation and Implementation of National Poverty Reduction Strategies* (NPRS) covers the period from 22 November 2001 to 30 June 2002. The report addresses the background and rationale of the NPRS, its administrative arrangements, implementation progress and achievements, lessons learned, and the financial statements. A more comprehensive report covering the first year of NPRS cooperation will be submitted at the end of 2002.

II. BACKGROUND

2. **Poverty Reduction – ADB's New Overarching Goal:** In November 1999, ADB approved its *Poverty Reduction Strategy*. Poverty alleviation became the overarching goal that drives all of ADB's activities. ADB has since been proactive in helping its developing member countries (DMCs) develop comprehensive poverty analysis and partnership agreements. Moreover, ADB (i) engages in participatory discussions of these assessments with the DMCs' governments and civil society representatives ; (ii) works jointly with DMC representatives and other donor communities in formulating Country Strategies and Programs (CSPs) that seek to reduce poverty; and (iii) forges partnership agreements with DMC governments on assistance programs to reduce poverty. The Poverty Reduction Strategy also sets new lending targets and an annual implementation action plan.

3. **Poverty Analyses and Partnership Agreements:** In implementing its Poverty Reduction Strategy, ADB is committed to help the DMCs prepare their respective national poverty reduction strategies in a participatory manner, and in collaboration with other international organizations and bilateral donors. The formulation of national poverty reduction strategies that have obtained consensus among the DMC constituents is a priority exercise. Such strategies are the basis of ADB's Poverty Partnership Agreements (PPA), and will drive the formulation of CSPs for each DMC. To increase the relevance of development interventions in favor of the poor, a systematic format needs to be adopted to ensure poverty-focused analyses of government policies, public expenditure, and regulatory frameworks. Such analyses should be the basis for policy dialogue, consultation with stakeholders, and agreement on national poverty reduction strategies that are fully "owned" by the government and supported by civil society and the donor community. Although assessments of poverty are under way in most DMCs, they are far from being incomplete, need refining, or individually applied. The impact of public sector programs and policies on poverty reduction often requires further analysis.

Table 1: Poverty Partnership Agreements
(as of 6 September 2002)

Country	Signing of Poverty Partnership Agreement	Comments
Southeast Asia and Mekong		
Cambodia	29 July 2002	Closely linked to World Bank's PRSP process; planned participatory outreach to district level and local dissemination
Indonesia	5 April 2001	
Lao PDR	28 September 2001	Participatory poverty analysis done by ADB
Philippines	10 October 2001	
Viet Nam	25 February 2002	Closely linked to World Bank's PRSP process
South Asia		
Afghanistan		
Bangladesh	3 April 2000	For potential updating in 2003
Bhutan	23 October 2001	
India	Expected in March 2003	Poverty analysis ongoing in 3 states
Maldives	12 March 2002	
Nepal	22 October 2001	
Pakistan	09 September 2002	Decentralized Poverty Analysis for Punjab and districts is planned for 2003
Sri Lanka	08 March 2002	
East and Central Asia		
Azerbaijan	Expected in 2003	
Kazakhstan		
Kyrgyz Republic		Closely linked to World Bank's PRSP process
Mongolia	24 March 2000	Revisions planned for 2002
People's Republic of China	Expected in 2003	Poverty analysis has been completed in mid 2002; through NPRS project, ADB will support bottom-up poverty reduction planning with a focus on ethnic minority regions
Tajikistan	Expected in 2003	
Turkmenistan	Expected in 2003	
Uzbekistan	Expected in 2003	Closely linked to World Bank's PRSP process
Pacific		
Polynesia		
Cook Islands	Under preparation for signing in early 2003 (under NPRS project)	
Samoa	Under preparation for signing in early 2003 (under NPRS project)	
Tonga	Under preparation for signing in early 2003 (under NPRS project)	
Tuvalu	Under preparation for signing in early 2003 (under NPRS project)	
Micronesia		
Federal States of Micronesia	29 July 2002	
Kiribati		
Marshall Islands	15 June 2002	
Nauru	Under preparation for signing in early 2003 (under NPRS project)	
Melanesia		
Democratic Republic of East Timor		
Fiji	Under preparation for signing in early 2003 (under NPRS project)	
Solomon	Under preparation for signing in early 2003 (under NPRS project)	
Vanuatu		
Papua New Guinea		

Source: RSPR Poverty Reduction database

4. **Dutch Support for Poverty Strategy Formulation:** To prepare detailed plans of action and better programs to reduce poverty, systematic approaches to prioritizing and sequencing poverty reduction interventions need to be developed and applied in all DMCs. The NPRS helps DMC governments prepare poverty reduction strategies. On 22 November 2001, the Netherlands Ministry for Development Cooperation established the NPRS, by making an initial contribution of 15 million Dutch Guilders (approximately \$6.0 million). NPRS helps ADB developing member countries formulate, prioritize, implement, monitor, and reformulate national poverty reduction strategies. It is doing so through (i) technical assistance grants (i.e. collaborative work with the stakeholders in the developing member countries, and research support); (ii) regional training and capacity building activities; and (iii) piloting of participation activities for poverty reduction and governance.

5. **Development Partnership:** The NPRS complements the other poverty reduction grant facilities with ADB¹:

- The Japan Fund for Poverty Reduction (JFPR) pilots innovative poverty reduction investments in conceptual link to ADB loans. By September 2002, JFPR had a total grant funding of \$295 million from the Government of Japan.
- The Poverty Reduction Cooperation Fund (PRF) was established in July 2002 with an initial contribution of £39 million (over \$55 million) from the *Department for International Development (DFID)* of the Government of the United Kingdom of Great Britain and Northern Ireland. PRF objectives are to (i) assist in policy dialogue and strategy formulation on poverty reduction; (ii) develop new programs and projects with increased focus on poverty reduction; (iii) monitor and assess the poverty reduction impact at the project, meso- and macro-levels; (iv) launch pilot poverty reduction activities to influence future loan design; (v) involve broader stakeholder consultations at all stages of design and implementation; (vi) strengthen ADB's role as the regional development bank for Asia and the Pacific to promote poverty reduction; and (vii) perform other poverty focused activities as mutually agreed upon between DFID and ADB.
- The Technical Assistance Cooperation Fund for India (TACF-IND) was set up in June 2001 with a total grant funding from DFID of £20 million (approximately \$28.5 million) for 2001-2003. TACF-IND supports (i) participatory poverty assessments and other poverty-focused surveys; (ii) appraisal studies for social sector lending; (iii) studies examining the issues of enabling environment for poverty reduction; (iv) poverty focused monitoring, evaluation, and impact assessment work; (v) conferences, workshops, and mutual learning events, focusing on poverty reduction; and (vi) recruitment of consultants to support ADB's role and capacity to address poverty issues.

6. The efforts of donors in the establishment of other trust funds, including those described above, help ADB operations aimed at reducing poverty, particularly in view of the continuing constraints on its technical assistance resources.

7. **Effects of ADB Reorganization:** In January 2002 ADB underwent a major reorganization. As a result, new regional departments have been created, most of ADB staff have been reshuffled, new country teams have been composed, and country and sector divisions have been brought together. The effect of the reorganization was also that cross-cutting dimensions such as poverty reduction (or governance or environment) have been moved to sector divisions. Cross-cutting work relevant for NPRS type of projects which is basically country and less sector focused. One effect of the reorganization is that such poverty-strategy

¹ The list is not exhaustive as there are some other initiatives that also contribute to poverty reduction efforts of the ADB.

work has an institutional home in Regional and Sustainable Development Department. Further, ADB is strengthening its Resident Missions so that such poverty strategy and programming work can be done in dialogue with its development partners in the DMCs. From 2003 onwards the PRF is financing local experts in ADB's Resident Missions. A close cooperation between NPRS and PRF activities is envisaged. This will help fast-track NPRS project implementation from 2003 onwards. Hence, for 2002 ADB is consolidating its NPRS work, while we expect major acceleration in 2003.

III. MAJOR FEATURES OF NPRS

8. **Purpose and Objectives:** The purpose of the *Cooperation Fund in Support of the Formulation and Implementation of National Poverty Reduction Strategies (NPRS)* is to facilitate the in-country processes of poverty reduction strategy formulation, prioritization, implementation, monitoring, and reformulation; and strengthen ADB's role in this process. The objectives of the NPRS are to help the DMC governments to: (i) formulate national poverty reduction strategies, action plans and implementation mechanisms; and establish monitoring and evaluation systems that will ensure the broad participation of civil societies and private sectors in every step of the process; (ii) analyze public program and public policy impact on poverty, including a more detailed analysis of the public expenditure framework, and assessing and rating DMC levels of governance; (iii) formulate systematic alternate strategies in participatory processes, including stakeholders consultation processes, participatory poverty assessments, and consultative advocacy processes; (iv) promote the implementation of national poverty reduction strategies through better characterization and selection of relevant projects and programs supporting poverty reduction; (v) coordinate external funding and division of labor based on their national poverty reduction strategies; and (vi) strengthen the capacities of their staff and other stakeholders for participatory poverty analysis, strategic prioritizing, and sequencing of development investments (e.g. by building on the current ADB poverty reduction briefing and training programs)

9. **Outputs:** To achieve those objectives, the NPRS supports the following activities: (i) preparation of country-owned, and widely supported, prioritized, and sequenced, national poverty reduction strategies for selected countries (if large countries like India are selected, it might be more appropriate to formulate such strategies at the state level); the NPRS will include a framework for donor coordination and division of labor; (ii) substantial inputs for the implementation of the national poverty reduction strategies for selected DMCs, including impact evaluation studies of previous policies, programs, and projects; and selected sector development studies; (iii) studies to strengthen understanding of poverty, its nature and extent, causes and effects, and strategic implications in DMCs; (iv) in collaboration with the ADB Institute and other development institutions capacity building and skills enhancement of DMC officials and other stakeholders needed for participating, prioritizing, and contributing to the process of poverty reduction strategy formulation and implementation; and (iv) strengthened collaboration between ADB and other donors in formulating and implementing national poverty reduction strategies

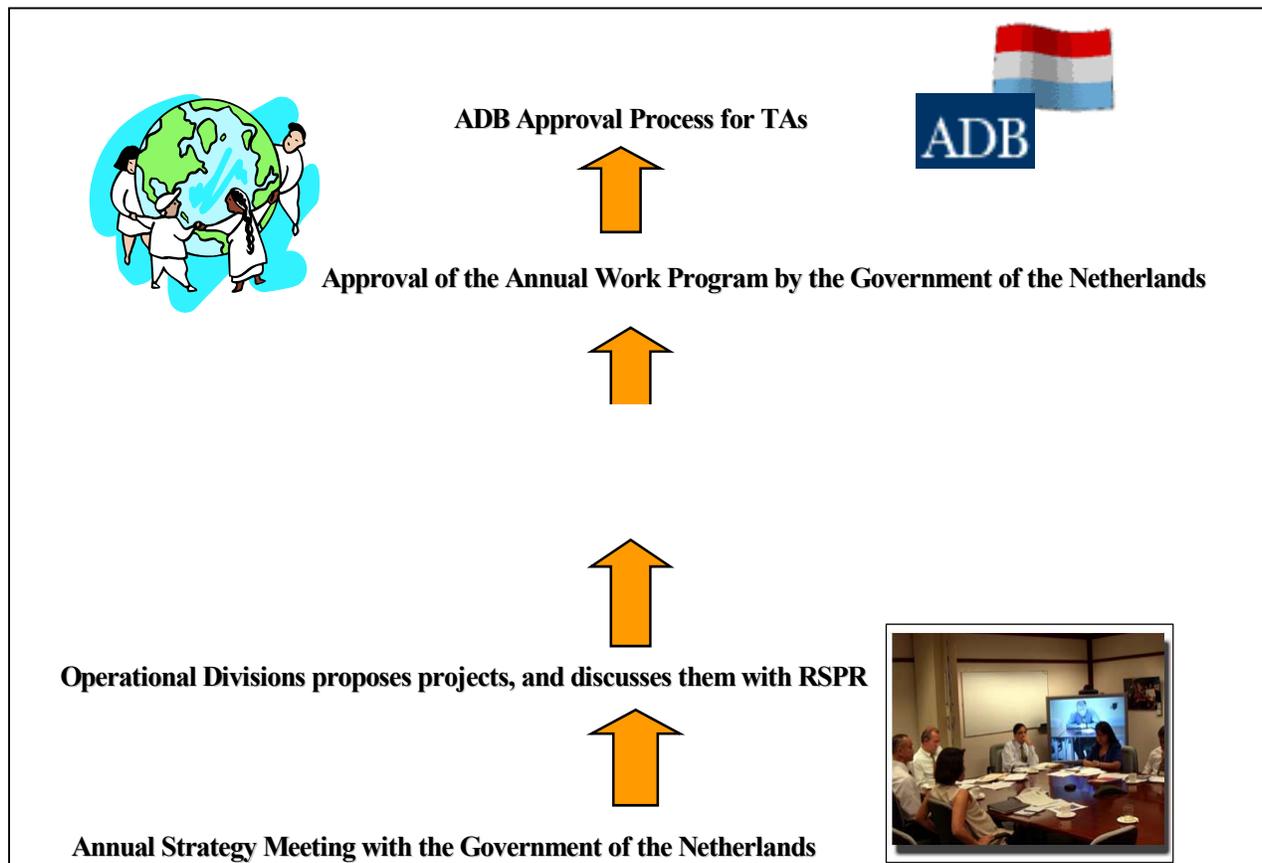
10. **Participatory and Consultative Process.** The NPRF will facilitate consultative processes promote the participation of all stakeholders and civil society in all stages of the formulation, implementation, and monitoring of the national poverty reduction strategies.

11. **Eligibility:** To be eligible for NPRS assistance, proposals should (i) strongly focus on national poverty reduction strategy formulation; (ii) show evidence of country ownership, and the inclusiveness of the proposed approach; (iii) promote sound collaboration with other donors; (iv) not substitute for activities that would otherwise be financed by ADB (additionality factor); and (v) support systemic poverty reduction. The NPRS finances activities at selected developing

member countries and ADB's headquarters. Given its size, the NPRS initially focuses on Cambodia, Indonesia, Pakistan, People's Republic of China, Uzbekistan, and Viet Nam. Others maybe selected based on the demand by DMC governments, perceived local ownership and commitment among both government and civil society for a national poverty reduction strategy, perceived need for strategic planning in poverty reduction, availability of other ADB technical assistance resources, and the role that ADB can play in the process vis-à-vis other donors.

12. **NPRS Project Processing:** As mandated by the business process for the reorganized ADB, the *Poverty Reduction and Social Development Division (RSPR)* in the *Regional and Sustainable Development Department (RSDD)* functions as ADB's internal clearinghouse for policy compliance and quality assurance for the NPRS (as well as for JFPR and PRF). At any time, requests for NPRS assistance from DMCs are discussed with the relevant ADB regional department or resident mission. ADB staff then prepare proposals and submit them to RSDD. After screening the concept papers, RSDD consolidates them in the annual work program that is submitted to the Government of the Netherlands. Proposals are then prioritized during the strategy meetings. The *Netherlands Ministry for Development Cooperation* and DFID have agreed to hold joint strategy meetings on NPRS and PRF. After the donor Government's approval of the annual work program, the respective operational project teams finalize the NPRS papers, in coordination with RSPR, for approval by the ADB Management or Board of Directors on a no-objection basis. After ADB approval, the Technical Assistance Cooperation Letters are signed and project implementation commences (see figure 1).

Figure 1: NPRS Approval Process



Source: Staff Summary

IV. OVERVIEW OF NPRS OPERATIONS (November 2001 – June 2002)

13. **Status of NPRS Grant Contribution:** The total NPRS contribution is 15 million Dutch Guildes from November 2001 to August 2004. By 30 June 2002, the value of the NPRS fund (including income from investment and interest earned) is \$6,447,549.79. As of 30 June 2002, ADB has received Dfl 5,803,515 (which is equivalent to US\$2,320,000), of which ADB had committed \$620,000 for two projects. At mid-year, total actual expenditures for projects amounted to \$31,952.20, while administrative costs and bank charges sum up to \$1,627.61. By the end of this year, ADB expects to commit at least \$1.23 million more for the 3 projects in Cambodia (\$150,000), PRC (\$580,000), and the Pacific (\$500,000). Hence expected total ADB commitment from the NPRS by December 2002 is expected to be \$1.85 million (see Table 2). This is within the limit of the NPRS funds already transferred for 2002 ADB processing (i.e., \$2.32 million). Please see Statements 1 and 2 for the financial status of the NPRS Fund.

14. **Project Approval Status:** In November 2001, the Netherlands Ministry for Development Cooperation approved the first work-program, comprising 5 projects valued at \$2.3 million. Of these, ADB has committed 3 projects valued at \$1.12 million, of which one has already been completed. One additional project is currently being prepared for ADB approval in November 2002, and the other project is deferred for 2003 processing. In September 2002, ADB proposed one project (for Cambodia) for additional NPRS financing in 2002. The Netherlands Ministry for Development Cooperation is currently considering this proposal.

Table 2: Status of NPRS Project Proposals for 2002 Approval (as of 17 September 2002)

Country	Project Name	NPRS endorsed for 2002 financing (US\$)	Expected date of ADB approval	Status
Cambodia	Participatory Dissemination of National Poverty Reduction Strategy	Expected for Sep-02	Oct 02	Under preparation
People's Republic of China (PRC)	Participatory and Bottom up Poverty Reduction Planning for Small Ethnic Minority Regions	580,000	Nov 02	Under preparation
Uzbekistan	Comprehensive Medium-term Strategy for Improving the Living Standards	570,000	28 Nov-01	Under implementation
Regional (Pacific)	National Poverty Reduction Strategies in the Pacific	500,000	06 Sep-02	Under implementation
Regional (Southeast Asia and Mekong)	Conference on National Poverty Reduction Strategies	50,000	21 Nov-01	completed
Regional (Mekong)	Poverty Monitoring	600,000	deferred to 2003	

Source: NPRS database

15. **Project Status and Impact:** Of the 5 NPRS projects endorsed by the Netherlands Ministry for Development Cooperation by 30 June 2002, ADB has approved 3, of which 1 is completed (Southeast Asia - Conference on National Poverty Reduction Strategies), and 2 (Uzbekistan - Comprehensive Medium-term Strategy for Improving the Living Standards, and Pacific - National Poverty Reduction Strategies) are in the early phase of implementation. Another NPRS project (on participatory poverty planning in PRC) is being finalized for ADB

approval, and the last 2002 NPRS endorsed project (for poverty monitoring in Mekong) is deferred for ADB processing in 2003. A description of the individual projects is in Appendix 1.

16. **Donor Coordination:** On 4 July 2002, the Government of the United Kingdom of Great Britain and Northern Ireland – through its Department for International Development – and ADB established the Poverty Reduction Cooperation Fund (PRF). PRF and NPRS complement each other in their country orientation and conceptual approach. However, PRF covers more countries, and also finances poverty analysis at program and project level, innovative sample investments for poverty reduction in the context of ADB loans, poverty experts in ADB’s resident missions, and outreach and communication activities for poverty reduction (see table 3). ADB agreed with the donors to harmonize the administrative arrangements for NPRS and PRF processing, and prioritize NPRS and PRF projects in joint strategy meetings. The first NPRS/PRF Strategy Meeting was held from 15-17 July 2002 in Manila, and the second is planned in December 2002.

Table 3: Scope of ADB’s Major Poverty Reduction Funds

	PRF	NPRS	JFPR
Poverty Strategy Formulation and Policy Dialogue	XX	XXX (selected countries)	
Development of new poverty focused programs and projects	XXX	XX	X
Poverty monitoring and impact assessment	X		
Pilot activities to influence loan design (direct investments in the poor)	X (smaller projects)		XXX
Cross border dimensions of poverty reduction	XX	X	X
Stakeholder consultation and participatory activities	X	XX	
Capacity building for poverty reduction	X	XX	
Strengthening outreach and communication	XXX	X	XX

Note: The number of “Xs” indicate the priority given by the respective poverty reduction fund for the various strategic outcomes XXX= highest priority, and single X = lower priority; blank refers to cases not covered).

17. **Modern Team-Based Fund Management:** The 3 poverty reduction funds have been set up reflecting a commitment to ADB’s reorganization, and to establish a more flexible, knowledge based, and client-oriented institution that can deliver appropriate projects to make a visible difference on poverty reduction. In responding to this challenge, ADB has introduced standardized administrative procedures for NPRS and PRF project processing. A separate database was set up, covering all project processing and budget information. A bottom-up, team-based, and peer review focused system of project prioritization and concept development has been introduced for NPRS (as well as PRF and JFPR) project processing. Ownership for NPRS projects has been strengthened through formalizing country-teams, a supervisory and coordination support group, a policy and programming committee.

18. **Outreach and Communication:** ADB and the Government of the Netherlands have agreed to enhance outreach and communication on the NPRS projects, the strategic trust fund cooperation, and their impact on poverty reduction in the DMCs, and supporting ADB’s changing emphasis on poverty reduction. A NPRS website has been prepared for uploading in October 2002, and all three poverty reduction funds are now featured in the quarterly newsletter *Poverty Reduction Funds at Work*. Furthermore, powerpoint and other presentation material has been prepared and various staff briefing on the NPRS (and other poverty reduction funds) have been held. The NPRS has also been explained to various governments and NGO stakeholders in Asia and the Pacific.

V. WORK PROGRAM FOR THE NEXT 6 MONTHS

19. The major tasks for the coming months are to:

- consolidate NPRS proposals endorsed by the Government of the Netherlands for ADB approval and begin implementation;
- enhance the communication and outreach for NPRS;
- further refine and simplify administrative arrangements for NPRS processing;
- enhance donor coordination; and
- increase the impact of NPRS activities on ADB's strategic dialogue with its DMCs and other stakeholders on systemic poverty reduction.

20. In the next NPRS/PRF strategy meeting (scheduled in December 2002 in Manila) ADB and its development partners DFID and the Netherlands Ministry for Development Cooperation will jointly prioritize the 2003 work program for NPRS (and PRF).