Scaling-Up Poverty Reduction: ADB in Asia and the Pacific

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ABBREVIATIONS

ADB  - Asian Development Bank
ASEAN - Association of Southeast Asian Nations
CSP   - country strategy and program
DMC   - developing member country
GDP   - gross domestic product
GMS   - Greater Mekong Subregion
HSDP  - Health Sector Development Program
Lao PDR - Lao People's Democratic Republic
LIBOR - London Interbank Offer Rate
MDG   - Millennium Development Goals
M&E   - monitoring and evaluation
NGO   - nongovernment organization
NIE   - newly industrializing economy
NPRS  - National Poverty Reduction Strategy
PNG   - Papua New Guinea
PRC   - People's Republic of China
PRS   - poverty reduction strategy
RETA  - regional technical assistance
SARS  - Severe Acute Respiratory Syndrome
UNDP  - United Nations Development Programme
WUA   - water users' association

NOTE

In this report, “$” refers to US dollars.
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EXECUTIVE SUMMARY

1. The paper first describes how developing member countries (DMCs) of the Asian Development Bank (ADB) have reduced poverty incidence in recent decades. It briefly summarizes the factors behind Asia’s economic performance and their relevance when attempting to replicate successful initiatives or when seeking to learn from failures. The Asia-Pacific region, which is the leading region of the world in terms of economic growth during the last few decades, has several insights to offer policymakers. ADB, as a premiere regional institution, has played an important role in the region’s development. It has also learned several lessons that could be further applied for scaling-up poverty reduction activities within the region as well as in other regions.

2. Among the many lessons that can be drawn from poverty reduction initiatives in Asia and the Pacific, the most important are: first, there is unambiguous evidence that broad-based and sustained rate of high economic growth is the single most important factor in attaining rapid poverty reduction. The experience of the East and Southeast Asian economies highlights the importance of a dynamic public policy and an active role of the State in creating enabling conditions conducive to rapid economic growth. Second, poverty reduction is far greater when social development programs complement policies for accelerating economic growth. Third, institutional capacity for macroeconomic management, fiscal accountability, and establishing a regulatory framework for private sector development and for the effective and efficient delivery of core public services, are crucial to achieve inclusive growth.

3. The paper traces the evolution of ADB through a process of development from a simple project financing institution to a full-service development agency, and discusses its recently adopted enhanced poverty reduction strategy.

4. The concept of scaling-up is then described, noting in particular the requirement to build on a reservoir of knowledge. Given that poverty reduction is the overarching goal of ADB, its transformation into a comprehensive development institution is cited as a vital instance of scaling-up. Learning based on evaluative research, whether conducted by ADB or by other development partners, has played an important role in building up this invaluable experience. In this sense, knowledge management is catalytic to scaling-up. Learning how to remove poverty in one instance should enable an institution to further improvise and replicate the process elsewhere rapidly. The way scaling-up considerations inform ADB's knowledge management process in order to assist DMCs to build capacity, formulate suitable assistance strategies, and learn from interventions, is outlined.

5. ADB activities range from pilot projects to fully appraised projects to sector-wide interventions and, ultimately, policy reform support. This transition from focused and fully-designed pilots and projects to more generalized policy support is seen as a manifestation of scaling-up poverty reduction. The lessons learned from the lower level of projects form the substrate on which higher-level development support in the form of institutional reforms is based.

6. In the past, assistance to national governments for scaling-up "solutions" followed a somewhat linear course: pilot projects led to models that were scaled-up through project-level investments; these led to operations that supported change at the level of a sector as a whole. Standard approaches, or project blueprints, were scaled-up, and learning was generally confined within a given sector. Recognition of the multidimensional aspects of poverty and the need for more comprehensive solutions has changed the way in which ADB views scaling-up
poverty reducing interventions. More emphasis is now placed on addressing sector-specific and crosscutting concerns. Scaling-up prompts learning from an intervention in one sector to inform progress in others. Learning across sectors is encouraged, and good processes (as opposed to project blueprints) are scaled-up to foster participation, tap local knowledge, and foster country leadership of the poverty reduction process. At the national and local levels, networks and participation are encouraged to broaden the stakeholder base for any given intervention.

7. Earlier, the economic, social, and institutional context for an ADB project was largely treated as given and immutable, and interventions were scaled-up within a set of given constraints. In recent years, efforts have been made to help the DMC governments improve the enabling environment for poverty reduction by combining investment support with assistance for capacity building and policy and institutional reform. It is a role whose effectiveness hinges very much on the quality of the knowledge base used to identify those factors that are binding constraints to scaling-up poverty reduction initiatives and to identifying why poverty is or is not responding to particular interventions.

8. Finally, the paper examines regional cooperation as a cross-border networking modality through which scaling-up potential is realized. It cites the example of the Greater Mekong Subregion, which is the flagship of regional cooperation in ADB. With the expansion of regional cooperation throughout the region, this is potentially the most promising way of scaling-up poverty reducing interventions.
I. INTRODUCTION

1. Asia, home to the majority of the world’s population, has witnessed significant economic and social transformation over the past decades. The green revolution has largely banished the specter of recurring famine; family planning initiatives have lowered population growth rates; immunization drives and clean drinking water programs have reduced infant and child mortality; and steady support for basic education has produced a more literate and productive work force. These achievements and the phenomenal economic growth in some East and Southeast Asian countries have been described as a ‘miracle.” For the first time in recorded history, entire countries have been lifted out of poverty in the span of a single generation, and now rank among the prosperous societies of the world.

2. The benefits of the East Asian Miracle have spilled over into other countries of the region. Despite the adverse effects of the 1997 financial crisis, Southeast Asia is growing anew and continues to exhibit strong progress in poverty reduction. As the growth of the Indian economy accelerates, and as prospects for peace and stability in South Asia brighten, the potential for further economic and social progress in Asia and the Pacific will improve even more.

3. As a result of this good performance and in contrast with lackluster economic performance in other parts of the developing world, the Asia-Pacific region has registered steady gains in poverty reduction. Since 1990, progress in this problem has been driven largely by the achievements of the People’s Republic of China (PRC) and India. The rest of the region, however, did not witness much decline in the total number of poor. In several countries, such as Bangladesh and Pakistan, considerable progress was registered in addressing the non-income dimensions of poverty, although in other parts of the region, progress in meeting the non-income Millennium Development Goals (MDGs) was mixed.

4. Notwithstanding these achievements, the Asia-Pacific region faces a number of challenges in attaining the MDGs. The region is still home to more than half of the world’s poor. Malnutrition, disease, violence, lack of education, and premature death haunt the lives of many who remain effectively excluded from improved economic performance. In geographic terms, progress in income poverty reduction needs to be broadened throughout the region if the absolute number of those living on less than one dollar per day is to be reduced. More emphasis will need to be placed on the non-income dimensions of poverty reduction. The region must also reduce its vulnerabilities to the evolving situation, characterized by security concerns, conflicts, heightened competition, communicable diseases, political instability, and natural calamities.

5. The consolation is that ingredients are in place to put an end to poverty in the Asia-Pacific region as we now know it: the region has demonstrated that it can make markets work, especially global markets, to trigger sustained improvements in living standards. A wide range of technologies has been adopted and adapted to the needs of the region. The skills base is constantly improving and ample financial resources, including some $2 trillion in official foreign exchange reserves, are available within the region. The greatest challenge for Asia and the

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1 This paper was prepared in the context of the Shanghai Upscaling Poverty Interventions Conference of May 2004. The paper was prepared by a team consisting of (in alphabetical order) Shiladitya Chatterjee, Colandavelu Narayanasuwanami, Brahm Prakash, and Steven R. Tabor. Feedback on the paper is welcome and may be addressed to schatterjee@adb.org. The views expressed in this paper are those of the authors and do not necessarily represent the views of the Asian Development Bank.
Pacific is to draw on the lessons of its reservoir of good practices to address the poverty reduction requirements of a great diversity of nations, regions, and peoples. Understanding what needs to be done to combat poverty and how best to go about it, are key to scaling-up poverty reducing interventions in Asia and the Pacific.

6. Investments, policy changes, and institutional reforms will be needed to facilitate poverty reduction on a large scale. Such interventions must be underpinned by effective learning, evaluation, and knowledge management practice. Good practices are distilled after years of development experience and experimentation. These practices must be piloted, field-tested, locally validated, and adapted to different settings over time. Learning and information sharing must be supported by simultaneously capturing, validating, disseminating, distilling, and adapting lessons of experience. More emphasis needs to be placed on evaluation at all levels, because of the heterogeneity of poverty conditions and the important role that the institutional context plays in influencing the effectiveness of interventions.

7. Government, markets, and civil society all have a role in scaling-up poverty reduction initiatives. Ensuring that all these agencies have unfettered access to information and serve as efficient conduits for institutional learning are central to the scaling-up process.

8. The Asian Development Bank (ADB) assists governments of developing member countries (DMCs) scale-up poverty reduction interventions directly by providing project design, supervision, and financial support, and indirectly, through policy advocacy, capacity building, and the dissemination of new knowledge. Such assistance is provided at a project, sector, and policy level. Many partnerships have been forged with stakeholders throughout Asia and the Pacific to support nationally-led poverty reduction strategies and initiatives.

9. This paper discusses aspects of scaling-up poverty reduction in Asia and the Pacific and the role of ADB. Chapter II reviews the experience of this region in poverty reduction and draws lessons for scaling-up poverty reduction efforts. Chapter III discusses how ADB is changing its strategy and approach to contribute more effectively to scaling-up poverty reduction activities in the region. This is followed by a discussion of ADB’s experience with scaling-up poverty reduction at the project, sector, and regional level in Chapter IV. A set of conclusions is presented in Chapter V.

II. LESSONS FROM ASIA’S EXPERIENCE IN POVERTY REDUCTION

10. Over the past four decades, a number of East Asian countries have recorded extremely high rates of economic growth and achieved spectacular improvements in the quality of life. The newly industrializing economies (NIEs) of Hong Kong, China; Republic of Korea; Singapore; and Taipei, China have telescoped into a single generation a process of socioeconomic transformation that took the industrialized economies centuries to achieve. Some Southeast Asian economies, such as Indonesia, Malaysia, and Thailand, have also made impressive gains that have resulted in a rapid reduction in poverty and brisk social development. In stark contrast to the performance of the NIEs and the “miracle economies,” South Asia is home to the largest concentration of the poor, both in Asia and in the world. Understanding the factors that have contributed to such diverse poverty outcomes is essential to drawing lessons for scaling-up poverty reduction interventions.
A. Poverty in the Asia-Pacific Region

11. The Asia-Pacific region made impressive progress in reducing income poverty in the 1990s, in spite of the 1997 financial crisis that depressed growth and increased poverty incidence. Using a one-dollar-a-day standard, poverty incidence declined by about 30% over the decade (Osmani 2003). In 1990, about 32% of the population in the region lived below the poverty line. By 2000, this proportion was 22% (Figure 1). The absolute number of poor persons declined by about 180 million, from 900 million in 1990 to 720 million by the end of the decade (Figure 2). Despite falling agriculture commodity prices, rural poverty in Asia and the Pacific declined from 39% to 28%, while urban poverty declined at a more modest pace from 24% to 20%.

![Figure 1: Poverty Incidence Based on the International Poverty Line ($1/day)](source)


![Figure 2: Number of Poor Based on the International Poverty Line ($1/day)](source)

Note: The regional groupings in Figures 1 and 2 are those of the World Bank and do not correspond to those of ADB.

12. Progress was driven largely by the PRC and India. Although controversy remains about how income poverty is measured in both countries, the official estimates are that poverty incidence declined from 31% to 16% in PRC and from 41% to 33% in India. The number of poor fell from 372 million to 216 million in PRC, and from 352 million to 335 million in India. Although poverty incidence in the rest of the region fell from 22% to 18% during the 1990s, the absolute

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2 The findings in this chapter are drawn primarily from ADB (2004b).
number of poor remained at about 172 million persons because of population growth and an increase in the poverty prevalence in some of the transition economies.

13. Although the region is still home to two thirds of the world’s poor, its poverty reduction performance in the 1990s compares favorably with that of other developing regions where the number of poor people increased (Table 1). A key reason is that, on average, the Asia-Pacific region recorded faster economic growth than the other developing regions. East and Southeast Asia, which experienced the largest decrease in poverty, also had the fastest annual growth in per capita incomes during the 1990s, at 6.4%.

<table>
<thead>
<tr>
<th>Region</th>
<th>1990</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia-Pacific</td>
<td>897</td>
<td>723</td>
</tr>
<tr>
<td>Europe and Central Asia</td>
<td>6</td>
<td>20</td>
</tr>
<tr>
<td>Latin America and Caribbean</td>
<td>48</td>
<td>56</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>241</td>
<td>323</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>5</td>
<td>8</td>
</tr>
</tbody>
</table>

Table 1: Number of Poor Persons by Region based on the International Poverty Line\(^a\) (million)

\(^a\) $1/day


14. The non-income dimensions of poverty have registered much less progress in Asia and the Pacific, calling into question the likelihood of achieving the non-income MDGs. Infant mortality is an important indicator of non-income poverty because it reflects access to health care services, safe drinking water, good nutrition, and female education and empowerment. The under-5 mortality rate in Asia and the Pacific fell from 85 per 1,000 live births in 1990 to 70 in 2000, a rate of progress too slow to meet the MDG target of reducing under-5 mortality by two thirds by 2015. Central Asia and the Pacific have made almost no progress in this regard, while East Asia has made only modest progress. But the biggest problem lies in South Asia, where under-5 mortality declined slowly in the 1990s from 120 per 1,000 live births to 94, while infant mortality was reduced from 69 to 58 per 1,000 live births (Figure 3). South Asia’s progress also remains slow in reducing the number of undernourished children, expanding immunization coverage, increasing the numbers of births attended by skilled health staff, and combating HIV/AIDS. These problems are mostly related to the unequal status of women in the region.

15. Improvements in educational achievement have also been modest. Youth (ages 15–24 years) literacy has risen only marginally from 82% in 1990 to 85% in 2000 (Figure 4). As with health, South Asia presents the biggest challenge. Only 68% of children in South Asia reached grade 5 in 2000, although enrollment in primary school increased from 79% to 89% in the 1990s. Modest progress has been made in achieving gender equality, with the ratio of literate females to males rising from 0.72 to 0.80 in the 1990s.

16. Low-income countries in the region generally tend to under-invest in the social sectors. Public spending in health and education in the low-income countries is 4–6% of gross domestic product (GDP), half the level in Asia’s low-middle and middle-income countries. In the low-income countries, poor households tend to bear a large proportion of the costs of health and education services, because public expenditures, inadequate to begin with, often fail to reach the poor. In turn, countries with low social indicators tend to record low economic growth, which further constrains government revenues. With competing pressures on public expenditures,
social sector investments tend to receive low priority—and the investments that are made tend not to be managed well. This vicious cycle needs to be broken for scaling-up poverty reduction.

**Figure 3: Under-5 Mortality**

<table>
<thead>
<tr>
<th>Region</th>
<th>1990</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>East Asia</td>
<td>20</td>
<td>15</td>
</tr>
<tr>
<td>Southeast Asia</td>
<td>25</td>
<td>20</td>
</tr>
<tr>
<td>South Asia</td>
<td>30</td>
<td>25</td>
</tr>
<tr>
<td>Central Asia</td>
<td>40</td>
<td>35</td>
</tr>
<tr>
<td>Pacific Asia</td>
<td>50</td>
<td>45</td>
</tr>
<tr>
<td>All Asia</td>
<td>60</td>
<td>55</td>
</tr>
</tbody>
</table>

Sources: UNDP (2003); ESCAP and UNDP (2003).

**Figure 4: Youth Literacy Rate**

<table>
<thead>
<tr>
<th>Region</th>
<th>1990</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>East Asia</td>
<td>40</td>
<td>50</td>
</tr>
<tr>
<td>Southeast Asia</td>
<td>35</td>
<td>45</td>
</tr>
<tr>
<td>South Asia</td>
<td>25</td>
<td>30</td>
</tr>
<tr>
<td>Central Asia</td>
<td>15</td>
<td>20</td>
</tr>
<tr>
<td>Pacific Asia</td>
<td>10</td>
<td>15</td>
</tr>
<tr>
<td>All Asia</td>
<td>20</td>
<td>25</td>
</tr>
</tbody>
</table>

Sources: UNDP (2003); ESCAP and UNDP (2003).

B. Transforming Asia’s Countryside: What Worked?

17. For much of the 20th century, poverty in Asia was largely a rural phenomenon. And it was rural Asia’s dramatic economic transformation in the last half of the 20th century that explains a substantial share of the progress made in rural poverty reduction.

18. Increased agricultural output and rural incomes resulted from the green revolution, the first systematic application of science and technology to Asia’s agriculture. During 1970–1995, cereal production doubled, with almost all of the increase stemming from higher productivity on practically the same amount of agricultural land. In those parts of rural Asia where the new technology was adopted, incomes and employment increased and the perennial food shortage problem was largely solved. Prior to the green revolution, the highly seasonal nature of the monsoon rains in Asia and the Pacific meant that productive employment was only available for limited parts of the year. This contributed to vicious cycles in which seasonal underemployment

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3 For more details on the targeting and delivery of social services, see World Bank (2004b).
held down wages and limited chances for upward mobility (ADB 2000b). Development of year-long production systems helped to smooth-out labor demand. As labor markets tightened, this inspired the adoption of technologies and management practices to boost productivity further, increase real wages, improve living standards, and empower rural communities to manage weather-related risks.

19. DMCs that grew earliest and fastest, such as PRC, Indonesia, Malaysia, and Thailand, and have reduced rural poverty the most, witnessed rapid progress in agriculture. Simultaneously, these nations registered steady improvement in human development thanks to massive investments in schooling and health care. Higher productivity in agriculture combined with enhanced access to social services increased the standard of living of the people, leading to demand for more consumer goods and still better public services. More importantly, agriculture growth was broadly based and was associated with an egalitarian distribution of land (See Oshima 1993; Chatterjee 1995; and Nave, Tabor, and Yee 2004).

20. An important lesson from Asia and the Pacific is that no country has sustained the economic growth process without ensuring food security for the majority of its citizens. In poor countries, the majority of the population, and most of the poor, live in rural areas. Their primary vehicle for sustaining food security—at household and national levels—is increased agricultural productivity. In the long run, this means that increasing labor productivity and nonfarm employment and migration, underpinned by steady investment in human resources, are important mechanisms. But in the short run, the main vehicle for increasing rural incomes has been to raise agriculture output per hectare (Timmer 2003).

21. The direct linkages between agriculture growth and poverty reduction involve providing food for cities, generating demand for domestic industrial goods, supplying raw materials to industry, and earning foreign exchange to import capital equipment and technology. Perhaps the most important indirect effect of agriculture growth on poverty reduction has been the declining rural-urban terms of trade—this has led to substantially cheaper food—which is hugely important to the poor (Mellor 2000). Providing the backward and forward linkages for development of national markets, generating the capacity to sustain rural social services, and boosting domestic demand for non-tradable goods are some of the ways in which agriculture growth has contributed to poverty reduction.

C. Scaling-up: Lessons from Asia's Take-Off

22. The contrast between the poverty reduction experiences of East and Southeast Asia and those of South Asia provides interesting insights into the complex relationship between economic growth, income inequality, and poverty reduction. These experiences hold important lessons that can be used to facilitate efforts at poverty reduction that are referred to as “scaling-up” in this paper (see paras. 38-40). From the 1960s to the mid-1990s, the miracle economies of Asia grew faster than any group of developing countries in the world. The NIEs grew fastest at 8% per annum, while Southeast Asian economies grew at 7% per annum. In roughly three decades, the income levels of the NIEs had increased more than ninefold. These economies also experienced a dramatic increase in the quality of life and social indicators. In many of these economies, rapid growth was accompanied by a worsening of income distribution.

23. In contrast, South Asia recorded sluggish growth in the three decades prior to the 1990s, with per capita income growth averaging about 2% per annum. Poverty reduction was lackluster, with some 30% of South Asia's population still classified as poor. Social indicators remain poor, with the exception of Sri Lanka and the Maldives. Yet, compared to the East Asian
and Southeast Asian economies, the South Asian countries were more egalitarian. The general conclusion, therefore, is that the East Asian miracle, which brought about tremendous reduction in poverty, was not necessarily egalitarian but was vitally important in lifting average incomes well above the $300–500 level prevailing in the first decades of independence. Over time, absolute poverty fell sharply, while relative poverty increased. Some of the South Asian economies experienced growth that was favorable to the poor in terms of its distribution, yet failed to reduce poverty because growth was clearly insufficient.

24. Another distinguishing feature of the East and Southeast Asia experience was that these regions invested a significant proportion of their incomes, and the level of investment increased over time. High investment was both a cause and effect of rapid economic growth. Since the 1980s, foreign direct investment has also financed a significant part of this investment, especially in Southeast Asia. These investments, which were concentrated in a narrow range of products, constituted the core of the industrial structure that sustained outward-oriented growth. In contrast, while investment rates in South Asia increased over the decades, they remained more modest than in the miracle economies. Because the South Asian economies were largely closed until the early 1990s, the efficiency of investment was not high and did not translate into rapid growth. Moreover, these economies did not succeed in attracting much foreign direct investment and, until recently, their manufacturing sectors were largely closed to foreign technology and management practice. Taken together, these factors resulted in a vicious cycle of low investment, low growth, and low social development in South Asia.

25. However, there is far less agreement on the factors that contributed to rapid growth and poverty reduction in the miracle economies (beyond the point at which agriculture was driving economic performance). A recent Asian Development Bank Institute study (Quibria 2002) identified the following factors:

(i) The proximate cause of high economic growth was state policies that guided market-led development. Confidence in the credibility of the State’s commitment to a congenial market-oriented investment climate, underpinned by favorable policies and institutions, resulted in sustained high rates of investment.

(ii) Another critical element of the policy package was openness to trade and technology, which gave these economies the opportunity to exploit international market trading opportunities and to access new technologies and raw materials, which helped sustain competitiveness and foster modernization.

(iii) Adherence to prudent macroeconomic policies, labor market flexibility, and market-supporting political and legal institutions that favored profit making over rent-seeking complemented economic openness. Crafting policies that inspired efficient private sector-led growth and development has been central to East Asia’s success in poverty reduction.

(iv) Favorable initial conditions, in terms of high levels of educational attainment (in relation to income levels), equitable asset distribution (because of land and other reforms) and steady development of the agriculture sector contributed to making the growth process more equitable and contributed to further acceleration.

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4 Absolute poverty is concerned with the number of persons subsisting below the "poverty line," which is an income (or consumption) level that separates the poor from the nonpoor. Relative poverty is concerned with the distribution of income of the population and, thus, more related to inequality than absolute poverty.
26. However, no two countries in East or Southeast Asia have followed identical growth or social development policies or practices. This underscores the importance of learning from experience and adapting what others have achieved in different settings to scale-up the poverty reduction response. In spite of the striking difference in the way good practices were adopted in the region, there are several common factors that have contributed to high growth and poverty reduction across Asia (Naya 2002).

27. Three major lessons can be drawn for scaling-up poverty reduction initiatives in light of Asia’s past experience. First, there is unambiguous evidence that robust, broad-based, and sustained rate of high economic growth is the single most important factor in attaining rapid poverty reduction. The experience of the East and Southeast Asian economies highlights the importance of a dynamic public policy and an active role of the State in contributing to the enabling conditions conducive to rapid economic growth (Quibria 2002; World Bank 2002). Second, poverty reduction is far greater where a comprehensive program for social development complements policies for accelerating economic growth. Experience throughout Asia highlights the vital role of public policy in empowering the poor through education, better health, and greater opportunities to participate in social and economic decision making (Bloom, Craig, and Malaney 2001). And third, institutional capacity for macroeconomic management, for fiscal accountability, for establishing a regulatory setting conducive to private sector development, and for the effective and efficient delivery of core public services is crucial to achieve inclusive growth. Country-specific initiatives to improve public and private sector governance are, therefore, central to national poverty reduction efforts.

III. ADB’S INSTITUTIONAL EVOLUTION TO SUPPORT POVERTY REDUCTION

28. Prior to 1999, poverty reduction was one of ADB’s five strategic development objectives. The other four were economic growth, human development, gender, and environment. In the late 1980s and early 1990s, ADB provided support for poverty reduction by focusing on the social dimensions of development. Efforts were made to increase the targeting of project benefits to poor and excluded communities, to foster women in development, and to develop social protection systems into ADB-assisted advisory and policy reform initiatives.

A. Poverty Reduction Strategy

29. In 1999, poverty reduction was adopted as ADB’s overarching goal. The 1999 Poverty Reduction Strategy (PRS) (ADB 1999) was the culmination of a long learning process in which ADB transformed itself from a project lending institution in the 1970s to one that supports development in its totality—a full-service development institution.

30. The PRS signaled for ADB a greater concentration and strategic focus on poverty reduction, and the adoption of a more integrated and holistic approach to combat poverty in Asia and the Pacific. Poverty is addressed as a multidimensional phenomenon. Similar to the interpretation of the MDGs, poverty in the PRS is measured, with the help of the International Development Goals, in terms of income, nutrition, education, health, and empowerment:

Poverty is a deprivation of essential assets and opportunities to which every human being is entitled. Everyone should have access to basic education and primary health care services. Poor households have the right to sustain themselves by their labor and be reasonably rewarded, as well as having some protection from external shocks. Beyond
income and basic services, individuals and societies are also poor—and tend to remain so—if they are not empowered to participate in making the decisions that shape their lives.

The main emphasis in the PRS was on a reduction in absolute poverty, although the strategy also acknowledges inequality in the distribution of assets and income.

31. The PRS is framed in terms of three mutually reinforcing “pillars.” The first, pro-poor sustainable economic growth, emphasizes the need to stimulate environmentally sound economic growth that benefits the poor, such as promoting sound macroeconomic management and assisting projects that increase employment, boost productivity, target poor areas, raise incomes, and promote regional economic cooperation. The second pillar is social development, which includes human capital development, population policy, social capital formation, gender equality, and social protection. The third pillar is good governance. This includes support for improved economic management, pro-poor policies, government accountability, public participation, predictable legal frameworks, transparency, and anticorruption initiatives.

32. Following the Monterrey Declaration, ADB has incorporated MDGs for tracking poverty reduction results. The MDGs are also used to compare the aggregate performance of individual DMCs in the region. On an operational level, ADB assists DMCs to integrate the MDGs into their poverty reduction strategies with targets that reflect country-specific resources and development priorities. This approach is aimed at maximizing country ownership of the development agenda while building domestic support for poverty reduction strategies and programs.

33. In January 2002, ADB reorganized its operations to better align its structure, organization, and processes with its overarching goal of poverty reduction. The reorganization combined projects with country operations, and introduced new business processes to enhance country focus, thus improving ADB’s capacity to integrate the lessons learned from country-level operations into the respective country assistance planning and project development activities. ADB programming operations are being gradually decentralized to resident missions, which have been considerably strengthened for this purpose, bringing decision making closer to the field where the voices of the poor can be heard better. Concurrently, more staff with poverty and social science expertise have been recruited and deployed to bolster ADB’s internal capacity to address poverty reduction. A new department (Regional and Sustainable Development Department) was established to help align ADB policies with the PRS, review quality in order to enhance the effectiveness of ADB interventions in reducing poverty, and foster knowledge management to fuel the scaling-up process by guiding and assisting institutional learning. Sectoral and thematic committees comprising communities of practitioners were created to encourage teamwork and lesson sharing across sectors. More intensive research in poverty impact monitoring and evaluation (M&E) has also been undertaken to promote feedback of results to better inform country strategies and project design.

B. 2004 Poverty Reduction Strategy Review

34. A review of the implementation of the PRS, as stipulated in the PRS itself, has been completed. It was an elaborate exercise. The findings indicate that the greater strategic focus on poverty reduction since adoption of the PRS has had a perceptible impact on ADB and its operations. ADB’s operational priorities and strategies have been realigned in line with the PRS priorities, while partnerships with civil society and other development agencies have been strengthened. At the country level, poverty assessments have helped to inform the assistance
programs, while country strategies and programs have generally become more sharply focused on poverty reduction. ADB’s policy dialogue has been more closely related to poverty issues, and assistance has been provided to several DMCs to support preparation of national poverty reduction strategies (NPRS).

35. Since 1999, the composition of ADB’s lending has changed, with increased support for growth and governance-related operations. Although there was an increase in the use of concessional resources (Asian Development Fund) for social development operations, this was offset by a decline in ordinary capital resource borrowing for such operations. Project preparation processes became more participatory and new analytical approaches, such as poverty mapping and distribution analysis, have helped strengthen the focus and monitoring of projects. More projects sought to target benefits to the poor and to decentralize service delivery. Overall, ADB increased its lending to poverty interventions, exceeding its 40% lending target in both 2002 and 2003. Some progress was made in introducing new lending instruments and modalities, aimed at reducing the costs of poverty reduction interventions, including lending terms based on the London Interbank Offer Rate (LIBOR).

36. The review concluded that the strategic focus and orientation of the PRS continue to be relevant. It recommended that ADB’s country support be more closely aligned with NPRS papers; that more comprehensive approaches to poverty monitoring be adopted; and that the focus of ADB performance monitoring be shifted to the delivery of poverty reduction results closely linked to the MDGs.

37. The review found that one of the most important impediments to ADB-assisted poverty reduction efforts was an increasingly tight funding constraint during the ADF VIII period (2001–2004). Funding constraints limited ADB’s capacity to fully implement the PRS, which meant that opportunities for well-tested poverty reduction interventions could not be brought to scale. There is, accordingly, an urgent need for the donors to improve the commitment of resources over the medium term to improve the predictability and sustainability of financial assistance, especially when the DMCs launch medium-term strategies and programs for poverty reduction.

IV. SCALING-UP: ADB’S EXPERIENCE AND PRESENT APPROACH

A. The Scaling-up Concept

38. Poverty reduction is difficult to accomplish, and development history is full of failed interventions. One of the reasons for this is the heterogeneous nature of poverty. Unless one knows the binding constraints precisely, successful interventions cannot be identified. If one somehow manages to diagnose the situation correctly and intervenes in it successfully, this may be good for the problem at hand but may not be useful elsewhere. Thus, while the uniqueness of the poverty problem often expects and demands a unique solution, scaling-up is an attempt to derive from various unique (and near-unique) cases a set of general principles that can be gainfully deployed elsewhere.

39. In completely identical situations, scaling-up would amount to simple replication, either in different locations or over time. At the other extreme, in totally dissimilar circumstances, the lessons learned from previous interventions would be ineffective. Between these two extremes, where a similar but not identical mix of circumstances is confronted, the issue of scaling-up emerges as important. In such situations, one may not have to reinvent the wheel from the beginning, but the wheel has to be adapted or modified to suit the new situation. Here, scaling-
up is useful in facilitating a solution by building on what is known and tested, and factoring in the new. This presumes a complete and thorough understanding of the problem of poverty in situ and the associated solution. For scaling-up to succeed, one needs to be able to separate the poverty problem into its basic elements so that in a new situation, one can judge what is to be retained and what needs to be replaced. Scaling-up is, thus, driven by knowledge management in which a rebuilt understanding of past experience is applied in a new situation promoting poverty reduction in the process on a larger scale.

40. Scaling-up processes build on a reservoir of accumulated knowledge. Lessons must be learned, contexts spelled out, constraints and opportunities identified, and options carefully selected. Situations are constantly changing, while the technology that can be deployed to combat poverty is continuously evolving. The pool of new development knowledge must be unceasingly replenished to keep abreast of the changing poverty situation and to ensure that good practices for combating poverty are relevant and not archaic. This underscores the need for a "real" time learning and feedback from the contemporary context, not just the historical. For this dynamic knowledge to be of use, it must be processed and disseminated quickly to those responsible for scaling-up poverty reduction efforts. The degree to which a development agency is able to reconfigure an intervention to suit a larger domain is essentially a function of its proficiency in the knowledge management process.

B. Knowledge Management Underpins ADB’s Scaling-up Effort

41. ADB focuses its knowledge management tasks—at a country, regional, and bank-wide level—on those areas and initiatives where it assists the DMCs to scale-up poverty reduction interventions. ADB uses a variety of inputs to ensure that adequate and timely information for poverty reduction purposes is available, and that networks, capacities, and partnerships are in place to help generate new knowledge and to make that knowledge accessible to all.

42. Sometimes, regional technical assistance (RETA) projects are used to facilitate learning across DMCs. RETAs tend to focus on identifying ways of addressing deep-seated social and environmental constraints to poverty reduction, such as social exclusion, gender bias, and institutional failure. Under a RETA, the models developed within a region are then adapted and adopted to suit varying country circumstances. This helps foster cross-sector understanding and awareness of innovative approaches to reduce poverty. An example of an intervention that originated through a RETA and was scaled-up through a national loan program is in Box 1.

43. Adoption of the PRS made it necessary to reorganize ADB. It was understood that more in-depth country knowledge, better knowledge management, and a more cross-sectoral approach to poverty reduction would be needed in order to focus more effectively on poverty reduction. Accordingly, in 2001, ADB was reorganized and partly decentralized to enhance country focus and build a detailed knowledge base at a country level. A new vice-presidency for knowledge management and a new department, i.e., the Regional and Sustainable Development Department, were created to develop systems for leading the knowledge management process.

44. In the context of scaling-up, M&E assume greater importance when they are seen as instruments of knowledge creation and dissemination. This implies a shift in the traditional role of M&E, which is to foster accountability, toward learning processes that are aimed at understanding the extent to which projects do contribute to poverty-reducing outputs and outcomes, and the extent to which such interventions may prove amenable to scaling-up.
Conversely, an inadequate or flawed M&E system will hide what is going on and hinder understanding.

45. In the PRS review, more emphasis was accorded to evaluation and focusing on results-based management. M&E are no longer viewed as being add-ons to projects, but as a continuum of opportunities for learning how best to deliver poverty reduction interventions effectively on an increasing scale. Self-evaluation is encouraged, so that the lessons of contemporary projects are quickly gleaned and shared. Project implementers, and especially executing agencies, are encouraged to focus on the delivery of poverty reduction results and to assess performance critically in light of progress toward meeting these objectives. Increasingly, independent evaluations focus on drawing comparative lessons at the sector, national, and cross-country levels from ADB-assisted activities. Under NPRS, more emphasis is placed on assisting governments to evaluate poverty conditions, to sharpening the management of poverty-related public spending, and to draw suitable lessons at a national level for formulating strategies, plans, and programs to combat poverty.

Box 1: From RETA to Project: Mainstreaming Gender in Nepal’s Irrigation Schemes

In 1999, the Asian Development Bank (ADB) initiated an umbrella fund (Regional Technical Assistance 5889 – Gender and Development Initiatives), which encouraged governments, nongovernment organizations, and ADB staff to pilot-test new and diverse approaches to encourage pro-poor and gender-responsive development practices. The fund has supported a total of 56 initiatives, many of which have generated institutional knowledge that has subsequently been scaled-up. One example is a one-year pilot initiative in Nepal—Building Gender Responsive Water User Associations (WUAs), which started in 2000. It took place in Panchakanya, one of the 11 subprojects of the then ongoing ADB-assisted Irrigation Management Transfer Project (IMTP). The pilot project mobilized women’s facilitator groups (both men and women) as community leaders to motivate community members to articulate their own needs. In addition, training was provided on gender sensitization, irrigation management, and agriculture to WUA members.

After one year, the pilot initiative resulted in women’s WUA membership increasing from 25% to 60%. This led to changes in the WUA constitution to extend membership to wives of landholding males. Furthermore, as a result of this pilot initiative, men and women now jointly exert social pressure to combat water thefts and nonpaying of the irrigation fee. System maintenance has been significantly improved and operation and maintenance costs reduced. Based on its success, the Panchakanya model has been replicated in other subprojects under the Nepal IMTP and lessons from this experience are being adopted to other follow-on irrigation loan projects in Nepal and other parts of South Asia.

46. Developing partnerships, as a means of combining, complementing, and leveraging ADB’s efforts is another way in which ADB helps the DMCs scale-up poverty reduction interventions. Within ADB, a conscious effort to deepen bilateral and multilateral partnerships to combat poverty is being made. Collaborative relationships have been forged with specialized United Nations agencies and the other multilateral banks to jointly assess poverty conditions and to deepen understanding of the various approaches to reduce poverty. Forging strategic partnerships with key development partners also helps ADB to mobilize the complementary resources needed to bring interventions to scale. Thanks to generous support from bilateral donors, ADB has established several grant funds at headquarters, and some at the country level, that are now used to pilot-test innovative approaches for poverty reduction. The availability of grant resources has helped ADB to involve nongovernment organizations (NGOs) and community-based organizations in operations, and has provided DMC authorities with
resources to test new approaches for reaching excluded groups and addressing the special needs of the hard-core poor.

47. Ultimately, it is a government’s own capacity to learn and scale-up poverty reduction interventions that is most important. ADB supports extensive analytic work and technical assistance to deepen DMC knowledge and understanding of poverty and the approaches that can be taken to reduce it. In collaboration with other assistance providers, ADB has financed DMC poverty assessments, regional poverty conferences, and the formulation of poverty reduction strategies in all the DMCs. A special effort has also been made to mainstream social concerns related to gender, participation, and protection of labor and other vulnerable groups.

48. Scaling-up poverty reduction at a country level is central to the way in which ADB defines its country strategy and programs (CSPs). Understanding what needs to be scaled-up and how this can be carried out require a thorough knowledge of local conditions and circumstances, much of which only country stakeholders are likely to have. To ensure that what is scaled-up is in line with the needs of the poor, a poverty analysis is prepared for each DMC in a consultative and participatory manner. Assessments are prepared for key sectors of the economy and for a number of thematic areas (i.e., private sector development, gender, environment, good governance). A series of consultations with a range of stakeholders is used to test strategic hypotheses and to validate assessment findings. This, in turn, provides the analytic foundation of the CSP, which defines a five-year assistance strategy and a 3-year lending and technical assistance pipeline. Each year, lessons learned from projects, advisory assistance, the monitoring of poverty trends, and other forms of new knowledge are drawn upon to prepare an annual CSP Update. Figure 5 shows the way in which scaling-up considerations inform ADB efforts to generate and manage knowledge in order to assist DMCs to build capacity, to formulate suitable assistance strategies, and to learn from past and ongoing interventions. Figure 6 demonstrates how knowledge management processes serve to mediate information and interventions in scaling-up poverty reduction interventions.

**Figure 5: Knowledge Management Scaling-Up and the ADB Assistance Cycle**

![Diagram of Knowledge Management Scaling-Up and the ADB Assistance Cycle]

1 country strategy program, 2 national poverty reduction strategy, 3 Asian Development Bank, 4 developing member country, 5 monitoring and evaluation
49. In the 1970s and 1980s, ADB assisted national governments to scale-up “solutions” in a somewhat linear manner: pilot projects led to models that were scaled-up through project-level investments; these in turn led to operations that supported change at the level of a sector as a whole. Standard approaches, or project blueprints, were scaled-up, and learning was generally confined within a given sector. Recognition of the multidimensional aspects of poverty and the need for more comprehensive solutions has changed the way in which ADB can assist DMCs to scale-up poverty reducing interventions. Interventions can be used to address both sector-specific and crosscutting concerns. Learning from an intervention in one sector can be used to inform progress in other areas. Learning across sectors should be encouraged and good processes (as opposed to project blueprints) be scaled-up to foster participation, tap local knowledge, and foster country leadership of the poverty reduction process. International partnerships should be forged to mobilize resources and to augment knowledge and capacities that ADB cannot provide. At the national and local levels, networks and participation should be encouraged to broaden the stakeholder base for any given intervention.

Figure 6: From Information to Intervention: Scaling-up Processes

50. In the past, the economic, social, and institutional context for an ADB project was largely treated as immutable, and interventions were scaled-up within a set of given constraints. In recent years, efforts have been made to help the DMC governments improve the enabling environment for poverty reduction by combining investment support with assistance for capacity building and policy and institutional reform. Operating in a catalytic manner, such interventions have the potential to facilitate more rapid and broad-based scaling-up because constraints are eased that impede all stakeholders from making progress. The effectiveness of ADB’s role hinges very much on the quality of the knowledge base used to identify the binding constraints to scaling-up poverty reduction initiatives and to identify why poverty is or is not responding to particular interventions.

C. Pilot Projects

51. Since the adoption of the PRS in 1999, various special grant funds have been established: the Japan Fund for Poverty Reduction (Government of Japan), the Cooperation Fund in Support of the Formulation and Implementation of National Poverty Reduction Strategies (Government of the Netherlands), the Poverty Reduction Cooperation Fund (Government of United Kingdom), and special thematic funds on governance, water, gender, and environment. A number of pilot and demonstration activities, including those addressing new challenges—such as globalization, HIV/AIDS, and human trafficking—have been initiated under these funds.
52. Strategic partnerships have been forged with NGOs, community-based organizations, the private sector, and development partners to help ADB better understand the specific causes and consequences of poverty, and work together with government and stakeholders to scale-up promising poverty reducing interventions. Building on the knowledge gleaned from poverty reduction pilot projects, ADB is able to incorporate promising approaches in sector plans and strategies, and provide financial and technical assistance to facilitate expansion on a larger scale.

53. Efforts to learn lessons by rigorously assessing the links between a given intervention and the poor are included in all pilot projects. In some cases, control groups are used to compare the poverty reduction impact with and without the ADB-assisted pilot project. In the PRC, for example, a targeted income-generation and capacity-building project for the rural poor in Shaanxi is being developed along the expressway and rural access roads that are being built with ADB financing. The pilot project will also provide basic skills and knowledge for safe migration. Two areas of support for income generation (cattle raising and handicraft) have been chosen because improved roads are expected to enhance opportunities for marketing. The evaluation will compare groups assisted by the project with similar (but unassisted) control groups. In addition to assessing the job creation and poverty reduction impacts, the evaluation will also assess the degree to which improved road transport did ease market access for these poor households and will identify factors vital to determining whether similar approaches can be replicated alongside other roads and highway projects.

D. Fully Appraised Projects

54. Identifying opportunities for and constraints to scaling-up poverty reducing interventions guide the formulation of ADB’s project assistance. Project design links the poverty diagnosis to the critical elements necessary to scale-up proven poverty reduction interventions, while ensuring that key determinants to success are met and critical constraints are addressed. Projects can be used to scale-up poverty reduction interventions by expanding service delivery coverage (or lowering costs) to a larger group of the poor or by exploiting economies of scale and scope within any given locale.

55. Factors that have been found to be frequently critical to the success of ADB project interventions include (i) a conducive policy framework; (ii) political stability; (iii) sound design, which includes beneficiary participation; (iv) commitment, ownership, and national leadership; and (v) institutional capacity, including (where appropriate) decentralization and devolution of responsibilities.

56. Projects that have not performed well have often been associated with (i) lack of adequate knowledge or understanding of the intervention; (ii) lack of an effective champion or change agent to scale-up the intervention; (iii) differences in the poverty profile or causes that would render the intervention less effective as a tool to combat poverty; (iv) differences in resource endowments, ecology, production systems, or market conditions that would adversely affect the intervention’s performance; (v) inadequate financing to replicate the intervention on a larger scale; (vi) organizational and human resource constraints, or lack of appropriate institutions, systems or procedures for managing and coordinating an intervention on a large scale; (vii) lack of enabling policy or regulations to support large-scale implementation; and (viii) lack of a conducive macroeconomic governance or political-economy setting.

57. Sometimes ADB supports projects that test innovative approaches to poverty reduction in order to provide useful lessons for further expansion. In these cases, rigorous M&E
techniques are built into the project design from the start. For example, in Cambodia, the Ministry of Health wished to contract out the delivery of health services to NGOs as an alternative to conventional government service delivery. But the Government was uncertain whether it would be better to provide NGOs full responsibility in given region or whether they should be hired to provide management support to civil service health center staff. They were also uncertain whether this model of health service delivery would help to reach the poor. Two different models were tested and evaluated with ADB support (Box 2). The results of the tests showed that giving full responsibility for health care services to NGOs substantially increased utilization rates by the poor and lowered the costs that the poor had to pay for health care. This pilot project was undertaken in five pilot districts. Drawing on these results, the Government, with the support of World Bank and the United Kingdom Department for International Development, have scaled-up this intervention to include an additional 10 of the poorest districts of the nation.

**Box 2: Scaling-up NGO-based Experiments to Deliver Health Care to the Poor**

The Cambodian Ministry of Health, with the support of the Asian Development Bank (ADB)-financed Loan 1447-CAM: Basic Health Services Project, contracted nongovernment organizations (NGOs) to deliver health services as an alternative to conventional government service delivery methods. Two models of NGO contracting for health services were tested and evaluated. The experience of these models was compared with a number of non-intervention areas, which served as controls. The contracting models were

- **Contracting Out.** Contractors had full responsibility for the delivery of specified services in an operational district, directly employed their staff, and had full management control over staff, resource allocation, and disbursement.

- **Contracting In.** Contractors provided only management support to civil service health staff, with recurrent operating costs provided by the Government through normal government channels.

There were three contracted-in, two contracted-out, and four control districts, each with a population of 100,000–200,000. An evaluation study showed that the contracted districts provided more than proportionate benefits to the poor. Much of the increase in health care utilization in contracted districts was attributable to the increased use of services by households of low socioeconomic status. For example, the use of curative health services at district hospitals by the bottom-half socioeconomic group increased more than tenfold in contracted-out districts and by fivefold in contracted-in districts in 2.5 years. The corresponding increase in the control districts was considerably lower at 82% during the same period.

While the use of government-financed services by households with low socioeconomic status increased in contracted-out districts, the actual out-of-pocket payment for health care utilization fell by 70% during the contract period. The reduction in out-of-pocket costs was greater for this group than for the overall population, indicating successful targeting of desired beneficiaries and efficient transfer of subsidies. This benefit to the poor was achieved through decreases in the private purchase of inefficient services combined with a reduction in travel expenditures by accessing services closer to home.

The pilot exercise is being expanded to 10 relatively poor operational districts in the Health Sector Support Project, which is being financed together with the United Kingdom Department for International Development and the World Bank. In addition to contracting, the project will help the Government in institutionalizing pro-poor health sector policies and poverty-sensitive planning and monitoring and evaluation systems.

58. Some projects can be replicated or expanded with minimal modifications. This is the case when an intervention does not require too much of a supportive environment for success, or where the project is being gradually scaled-up in its original environment or country. In such instances, the scaling-up process draws on a tacit knowledge and understanding of the challenge, the intervention, and the context; and requires that champions or change agents are in place, that poverty conditions are similar, and that there are no substantial differences in public policy, political-economy, governance, resource endowments, ecology, production systems, or market conditions that would adversely effect the intervention’s performance. For such projects, the main challenge is to secure adequate financing and ensure that there are appropriate institutions, systems, and procedures for managing and coordinating the intervention on a larger scale.

59. For example, the 1997 Asian financial crisis highlighted the importance of well-functioning insolvency regimes to the welfare of the poor. International examples of good practices were already available; leadership was committed to reform; and through a process of regional consultation, cooperation, and project and advisory support, these pro-poor interventions were readily up-scaled in the crisis-affected economies (Box 3).

### Box 3: Scaling-up Pro-poor Interventions with Minimal Adaptation: The Case of Insolvency and Secured Transaction Regimes

Evidence from the Asian financial crisis highlighted the potentially destabilizing impact of financial systems that were overly dependent on the banking sector for credit and on real estate as collateral for credit. Effective insolvency and secured transaction regimes that support moveable property as sources of collateral for credit can reduce these risks.

Good insolvency laws should provide for continued functioning of an insolvent corporate debtor if possible, with an effective rescue process in which creditors and shareholders have confidence so that businesses can be rehabilitated and employees can retain their livelihoods. Insolvency laws and processes can provide an awareness of what practices led to insolvency. In cases where there appear to have been infringements of laws by corporate managers or directors, prosecution could be launched, thus building awareness nationally of what constitutes illegal corporate conduct. Sound insolvency laws also permit all economic actors to understand in advance how their interests will be protected in the event of corporate insolvency.

Secured transaction regimes help the poor significantly. They allow small and medium-sized enterprises and farmers to use moveable property, such as equipment and raw materials, as collateral for credit; such groups often cannot provide real estate or land as collateral.

The recommendations of an Asian Development Bank (ADB) regional technical assistance project that analyzed insolvency and business reorganization frameworks in 11 Asian countries provided the basis for the publication of good practice standards to debtor-creditor relations in a sound corporate insolvency environment. The United Nations Committee on Trade Law adopted these standards and incorporated them into its draft Legislative Guide on Insolvency Law. The onset of the Asian financial crisis highlighted the importance of developing a framework for regional cooperation to address the growing problem of cross-border corporate insolvency. ADB’s discussions with key stakeholders on strengthening national insolvency frameworks led to several countries considering ways of cooperating in this area. An ADB regional study of secured transactions led to a series of follow-on country initiatives in Bangladesh, India, Indonesia, Lao People’s Democratic Republic, Sri Lanka, and Viet Nam.


60. ADB has mainstreamed a number of crosscutting concerns into the design and appraisal of its assistance projects. These include good governance, participation, gender equality,
environmental and financial sustainability, private sector development, and an enabling policy environment. Past experience demonstrates clearly that progress in these areas enhances the likelihood that any given intervention can be successfully scaled-up. Progress in these crosscutting areas boosts the returns to poverty reduction interventions and enhances the probability that such interventions can be sustained once the project phase is completed.

61. Scaling-up project interventions from pilot project to full project often means that capacities must be built, new institutional arrangements developed, and supportive policies put in place while investments are underway. While projects are designed with clear poverty reduction objectives in mind, they also embody incremental changes in capacities, competencies, incentives, and arrangements that will ensure that poverty reduction interventions can be sustained over the long run. Box 4 provides an illustration of this, drawing on a series of ADB-assisted road projects in the Lao People’s Democratic Republic (Lao PDR).

62. Project initiatives that tap local knowledge, empower communities, and foster broad-based participation all contribute to a development setting that is conducive to scaling-up poverty reduction initiatives on a sustainable basis. Increasingly, ADB incorporates these good practices in its assistance projects. One of the ways in which this is done is by designing projects around “good processes” that leave the choice of specific activities and modes of implementation to local governments or communities. Such projects are designed with a specific scaling-up strategy in mind, in which capacities built locally can then serve as demonstrations for the next batch of adopters.

63. For example, Indonesia’s far-reaching decentralization program involved a substantial transfer of authority, personnel, and funds to the regional governments. However, for decentralization to work effectively, the regional governments must be capable of improved performance commensurate with their vastly enhanced responsibilities. The Indonesia: Sustainable Capacity Building for Decentralization Project, which started implementation in 2003, is developing institutional capacity for around 40 regional governments on a pilot basis. Each participating regional government will be helped to prepare its own capacity-building action plan through a fully participatory process that is checked and evaluated. These plans will specify the capacity-building framework (policy, strategy, plan, and performance targets); institutional strengthening approach; human resource management and development; and sustainable systems for financing, budgeting, and planning. On the basis of district-driven capacity-development plans, financial and technical support will be provided. This process approach leaves development of the essential design of the components of the action plans to the local stakeholders rather than forcing a predetermined design from outside. As such, it helps to respond to local needs and builds ownership. The main role of the ADB project is to see that these processes are actually followed with necessary amendments to reflect local needs and conditions. Careful monitoring and evaluation are built into this project.

E. Scaling-up to Sector Level

64. Once institutional capacity has been built and requisite lessons about the context internalized, ADB often scales-up investment through sector-wide projects. In so doing, careful attention is paid to the evidence that establishes different interventions as a success and the degree to which those factors are likely to remain valid when the intervention is expanded to a sector level or transferred to another setting (Table 2). At the sector level, the greater the reliability of the evidence of an intervention’s positive performance in multiple settings, the less risky the scaling-up process. Demonstration of impact across several cases helps to improve the understanding of those factors that are likely to influence performance and reduces the risk.
Box 4: Fostering Connectivity to Combat Poverty: Lao PDR Road Improvement Projects

The Fourth and Fifth Road Improvement projects of the Lao People’s Democratic Republic (Lao PDR) assisted the Government to combat poverty by reducing the isolation of the northern parts of the country. The projects helped improve the northern part of national road N13, which links the northern and southern provinces of the Lao PDR.

A post-evaluation in December 2001 found that the projects had a high rate of return and were assessed as highly efficient and sustainable. The projects made the road usable in all weather conditions and ensured secure year-round passage to road users. The number of registered trucks more than doubled while the number of buses tripled between 1990 and 1995. Travel times were substantially reduced, from more than one day to 5-8 hours, while the travel cost became affordable to most villagers.

These projects enhanced access to health and education services, enabling previously excluded communities to tap government immunization, special education, and training programs. New opportunities for income generation were created among some of the poorest communities of the north. Prior to the project, these villages tended to produce food crops to meet subsistence needs. With improved market access, all villages reported a variety of income sources, including production of vegetables, chilli, cotton, jute, papyrus grass for paper making, fishponds, and handicrafts. Poor women were able to produce traditional embroidery for export thanks to market links to Louang Phrabang. Security in the region also improved, with more villages built along the route and an increase in travel speed.

Four key factors contributed to the successful scaling-up potential of this poverty reduction intervention:

(i) Strong local commitment by the executing authority (i.e., the Ministry of Communications, Transport, Post and Construction), whose staff were committed to complying with the project agreement and were determined to learn from loan-financed consultants to improve project management.

(ii) Institutional capacity had to be improved for designing, constructing, and maintaining the nation’s road network and for improving capacity for road maintenance in the northern provinces. On-the-job training of project staff and establishment of a transport database and management system helped build project implementation capacity. Commercialization of state-owned enterprises and the emergence of private construction companies were encouraged under the project, helping to contribute to a more competitive and sustainable institutional setting.

(iii) Lack of recurrent funding for road maintenance was a perennial problem in Lao PDR, as in many other developing countries. To address the lack of adequate budgetary resources to maintain the roads, a road maintenance fund is being established with the assistance of the Asian Development Bank (ADB), the World Bank, and others.

(iv) The project, and an accompanying series of 20 technical assistance projects, provided valuable learning experiences in both the technical and management aspects of civil works and road maintenance. Technical expertise was transferred, for example, in designing culverts in the fragile mountainous regions and in constructing subsoil drains for drainage of storm water. During the latter stages of project implementation, the commercialization of state-owned enterprises and provision of assistance to private construction companies helped in building capacity in the private sector. Local villagers were also trained in maintenance and road repair work.

Source: ADB (2001c).
Table 2: Assessing Readiness of Interventions for Scaling-up at the Sector Level

<table>
<thead>
<tr>
<th>Intervention Type</th>
<th>Evidence</th>
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<tbody>
<tr>
<td>A. Promising Practice</td>
<td>Positive evidence from a single setting only that is based on field M&amp;E, testimonials, articles, reports.</td>
</tr>
<tr>
<td>B. Good Practice</td>
<td>Clear evidence from several settings and several evaluations. Repeated applications in several settings demonstrate the robustness of the intervention.</td>
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<tr>
<td>C. Best Practice</td>
<td>Demonstrated evidence that the practice can be replicated in multiple settings with little loss in performance. Expert reviews confirm that it is the best of all possible practices.</td>
</tr>
<tr>
<td>D. Policy Principle</td>
<td>Proven in multiple settings. There is a consensus on the superiority and applicability of the underlying scientific and technical approach across settings.</td>
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65. The direct approach to scaling-up involves expansion through an increase in intervention size and the number of beneficiaries covered. This requires institutional capacity, organizational growth, learning, program development, and a steady increase in the resources directed to the particular intervention. Many different options, involving some mix of expanding and replicating, are possible. There are a number of indirect ways in which an intervention can be scaled up, including:

(i) **Indirect Growth.** Scaling-up can be fostered by catalyzing and supporting government to expand a pro-poor intervention by integrating approaches that were proven in one project in an already existing poverty reduction program. For example, devolving authority to community organizations to deliver services might be tested in one sector and then its remit broadened to other sectors.

(ii) **Mainstreaming.** Sharing knowledge, awareness, and the intervention’s technology with other development partners and national stakeholders may be sufficient to inspire its application in other settings. Revealing, for example, that gender discrimination lowers returns to all forms of poverty reduction interventions in a particular country may be sufficient to sensitize leaders of the need to make progress on that front in all sectors.

(iii) **Catalyzing Change.** Advocating changes in policy or in other aspects of the intervention’s enabling environment is a way of helping to create the pre-conditions for successful scaling-up. This could involve, for example, advocating that sufficient resources be provided in a government’s budget to finance certain categories of best practice pro-poor interventions, or advocating that public policies be changed to facilitate interventions that have proven successful in reaching the poor in other settings.

66. In scaling-up interventions to a sector level, careful attention is paid to the factors that contribute to a project’s success or failure. Some of these factors are internal to a project, and others are context or setting specific. The factors that have contributed to an intervention’s success can be divided into those that are “internal,” or within the control of the project and program, and those that are “external,” or to be found in the setting in which the intervention took place. Internal contributors to success could include, inter alia, (i) local leadership and commitment; (ii) quality of the intervention design; (iii) process used to design and deliver the intervention; (iv) relevance and suitability of the approach applied, given the resources endowments, problem diagnosis, and poverty conditions; (v) adequacy of financial support and other resources devoted to the intervention; and (vi) capacity and preparedness of the institutions involved in the intervention. External contributors to the success of a pro-poor intervention often include the (i) macroeconomic context and framework; (ii) structural and sector policies and programs; (iii) governance setting and the institutional (i.e., public service and private sector) framework; (iv)
exploiting similarities in the poverty problem or context. It can also be assisted by taking contextual differences in determinants of success into account in the design of an intervention (Table 3). ADB’s support to Thailand’s rural electrification sector provides a good illustration of the importance of continuous learning and adapting intervention design to cope with rapidly changing economic circumstances (Box 5).

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<thead>
<tr>
<th>Similarities</th>
<th>Design Decisions</th>
<th>Context</th>
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<tbody>
<tr>
<td>Differences</td>
<td>Exploit</td>
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67. While it is axiomatic that better infrastructure and social services are part of the solution to reducing poverty, it does not follow that public investment in economic infrastructure or social services will be automatically poverty reducing. Investment must be made in the appropriate social context. As such, simplistic suggestions that investment in a particular sector or type are inherently poverty reducing need to be avoided unless justified by an in-depth examination in situ. Careful collection of information and its thorough analysis can help trace the likely channel of benefits and the beneficiaries for sector-level interventions. Such detailed analysis requires adequate lead time and commitment of sufficient resources. In the absence of such an effort, there is the danger that the selection of sector investments could be captured by considerations that are not significant from the point of view of poverty reduction. This is important because similarity of projects is not sufficient to guarantee a similar poverty reduction impact. The importance of country context to the poverty reduction impact of infrastructure investments was one of the key findings of a multicountry ADB impact study (Box 6).

68. Similarly, sector programs that are targeted to the poor, such as rural roads, may or may not have a sustainable poverty reduction impact, depending on the nature and sequencing of interventions. This is aptly illustrated by a 2002 independent evaluation of ADB-assisted road and rural development projects in six case study areas. Project sites were compared to control sites without the same level of road improvements. This special evaluation found that the poor mainly travel by walking and rely heavily on the primary network of paths, tracks, culverts, and basic access routes. Improvements to this network, therefore, are likely to have a greater impact on their well-being than improved availability of motorized transport services. Nevertheless, rural roads did provide jobs, and the poor did benefit from improved access to services, and better information. The study found that rural roads are a critical enabling condition for improvement of living conditions in rural areas, and that the poor and nonpoor both assign a high priority to better access. But in order for the poor to benefit from improved access, they need first to accumulate time and marketable surpluses, for example through reduced time spent collecting water, prior to seizing the new opportunities that motorized transport brings. For scaling-up to succeed in reducing poverty, the study advised that pro-poor transport interventions initially concentrate on removing the immediate access and mobility constraints of the poor, and that improvements in road and transport services be linked to livelihood and income diversification initiatives (ADB 2003).

69. Social sector interventions often aim at both improvements in access and quality of services. While it is generally correct that underfinancing of essential social services in low-income countries impedes poverty reduction, the extent to which higher funding allocations will improve service delivery and impact hinges very much on the context in which such


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political economy context for reform; and (v) degree to which favorable or unfavorable shocks influence performance.
interventions take place. Hence, the nature of the health challenges, the service delivery setting, institutions, incentives, and more generic constraints to service delivery all play a role in influencing the extent to which any given health intervention is likely to influence the poor. ADB’s support for health care sector reform in Papua New Guinea (PNG) demonstrates just how important a thorough understanding of the context for reform is to the efficacy of scaling-up at a sector level (Box 7).

Box 5: Scaling-up Interventions to Sector Level: Rural Electrification in Thailand

Thailand’s development in the 1980s and 1990s resulted in the concentration of growth in the Bangkok Metropolitan Region. Although poverty incidence in Thailand had declined substantially, some 90% of the poor lived in rural areas. The Government was well aware of this imbalance, and put in place a number of initiatives aimed at fostering better geographic balance in the development process. A high priority was accorded to support for rural electrification in order to generate employment and foster development of small-scale industries in the rural areas. In line with the Government’s Seventh National Economic and Social Development Plan, ADB provided support to the national rural electrification program. ADB project support was used to reinforce and expand distribution systems in rural areas by upgrading facilities in 73 provinces throughout Thailand. It was aimed at providing electrical connections to around 400,000 rural consumers, or some 2.5 million persons in total.

The project was completed in the wake of the Asian financial crisis. It was redesigned during implementation to enable the Provincial Electricity Authority to react quickly to mitigate the impact of the crisis. Thanks to a conscious effort by the executing agency to repeatedly redesign the project under considerable time pressure to redeploy savings from devaluation, the Government was able to reach many rural households to broaden the scope for improving rural livelihoods. Overall, the project was able to serve 477,000 new customers in rural areas, a 20% increase over what had been originally intended. Nearly 90% of the new customers provided access to electricity were located in the south, north, and northeast parts of the country, all of which have high levels of poverty. Although the project cost was originally estimated at $429 million, some 20% of the costs were saved, thanks largely to the effects of a 33% reduction of projects costs in dollar terms due to currency devaluation. A key lesson for scaling-up is that flexibility in managing project design during implementation can help in addressing an unanticipated crisis.

Thanks to rural electrification, many new businesses were established in rural areas. Opportunities for new kinds of nonfarm activity and wage employment were created and new occupations, such as welding, food processing and battery-charging, were created in the villages. Small-scale farmers were able to use electrical water pumps for irrigation, which has helped to increase productivity in vegetable gardens and rice cultivation. Improvements in the quality of life, education, and safety were also observed. Both poor and nonpoor households benefited from better light for reading, access to television, and access to electrical appliances for cooking. Better village lighting had a positive effect on the perception of security and safety in the villages.

This project has three main lessons for scaling-up interventions to the sector level: (i) Sector-wide projects can cope with unexpected changes in scope that warrant increased investment of human and financial resources if implementing institutions are sufficiently dynamic—i.e., have enlightened and committed leaders; (ii) challenges posed by external shocks can be productively transformed into opportunities to review and reassess priorities, and to strengthen resolve to meet changing needs while adopting cost-saving measures; and (iii) rural electrification efforts can play an important role in rural poverty reduction and in mitigating the adverse effects of external shocks by increasing opportunities for wage employment, enhancing productivity, boosting rural incomes, improving rural living standards, and improving village security conditions.

Source: ADB (2001b).
Box 6: Is All Infrastructure Poverty Reducing?

An Asian Development Bank regional technical assistance (5947) in 2002 and 2003 assessed the impact of transport and energy infrastructure on poverty reduction in the People's Republic of China (PRC) (Shaanxi Province), India (Gujarat State), and Thailand. The impact study found that infrastructure generally benefited the poor, but that its effects were mediated by a large number of contextual variables. The study found that poor people welcome such investments, even if they are not immediately able to take advantage of them.

The study hypothesized that rural transport improvements would increase the availability and accessibility of social services in rural areas, resulting in greater participation in these programs by the poor. In Thailand, this was clearly the case, and respondents reported that road improvements increased their access to health and education services outside the village. In Thailand, the respondents also valued the positive health impacts of decreased dust on paved roads. In India, road improvements had little effect on the availability of health and education facilities in the sample villages. They did, however, contribute to an increase in school enrollments and visits from district nurses, and also contributed to the willingness of families to send their daughters to secondary school.

In the PRC, the quality of primary education was improved because villages were able to attract more public teachers to schools in communities with road access. There was also some evidence that health conditions were worse in villages that did not have road access. In general, health care access through rural transport improvements was highly valued by respondents, both poor and nonpoor, although the poor were less likely to take advantage of these benefits except in an emergency. The study also evaluated the impact of port development in India, using the all-weather Mudra Port, in Kutchh District, as a case study. The study found that the port has operated as an enclave, bringing in laborers from outside the state and developing a township for their staff in the village. Few jobs were created for the poor after the construction phase, and because many agriculture landowners sold their land to the port or to factories that have developed in the surrounding area, there is less demand for unskilled agriculture laborers. Generally, the villagers do not feel that they have benefited from the port because there is much unemployment in the villages and wages remain very low.

Source: Cook et al. (2004).

F. Scaling-up through Regional Cooperation

70. ADB accords a high priority to regional economic cooperation in its assistance to the DMCs to create a conducive setting for achieving economies of scale and scope for poverty reduction on a transnational scale. Regional cooperation is perceived as a means for individual countries to jointly manage shared natural resources, foster economic stability, diversify exports, lower interregional transaction costs, boost inward investment, achieve greater economies of scale, enhance the global bargaining power of individual nation-states, and utilize regional economic space as a training ground for new exporters. Regional cooperation initiatives that simultaneously address physical infrastructure and institutional requirements, such as trade and investment facilitation, can increase the region’s attractiveness to potential investors (World Bank 1989). Regional environmental initiatives can help mitigate the effects of natural environmental disasters and those caused by human activities, such as erosion, flooding, forest fires, and air and water pollution. Combating global crimes, such as money laundering and trafficking of women and children, requires a coordinated international response, which is facilitated by regional initiatives (ADB 2001a; Iwasaki and Prakash 2002). Moreover, nations that are intertwined economically are more likely to be peaceful and secure. In such settings, shocks are absorbed over a larger area than would be the case in isolated economies.

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6 In 1994, ADB approved a policy that formalized its role as a catalyst for regional cooperation. More recently, ADB’s Poverty Reduction Strategy and the Long-Term Strategic Framework 2001–2015 formally identified regional cooperation as a core component in the agenda for reducing poverty.
Box 7: Scaling-up Health Sector Reforms in PNG

The human development index ranking of Papua New Guinea (PNG) is the lowest among Pacific countries. Maternal mortality is 370 per 100,000 births, placing it second highest in the western Pacific. Infant mortality rates (IMRs) are also very high, 33–87 per 1,000 live births and averaging 73. The under-5 mortality rate is recorded as 102 per 1,000 live births. Health services are often not delivered effectively. Many facilities are closed or not properly staffed, equipped, or supplied. Only half of scheduled outreach clinics (immunization and maternal and child health) are actually held, resulting in low immunization rates and contributing to the high maternal and child mortality. Only 57% of pregnant women receive any prenatal care. Childhood immunization is less than 60%, resulting in epidemics of preventable childhood communicable diseases, such as measles. In comparison with its Pacific country neighbors, PNG spends the lowest proportion of gross national product on health and also has the lowest level of health expenditure per capita.

Asian Development Bank (ADB) assistance to the health sector in PNG in the 1980s and the early 1990s focused on improving access to rural health services by investing mainly in infrastructure (aid posts, health centers, staff housing). After 1994, ADB’s health sector strategy was refocused from expansion of the service delivery network to quality improvements, and eventually resulted in the Health Sector Development Program (HSDP). The HSDP was the first sector-wide assistance program in health in PNG. The policy-based loans were designed to support the implementation of the Government’s National Health Plan 1996–2000. The National Health Policy, developed in a broad consultative process in 1995, focuses on improving health services to the rural majority and the need to adopt health promotion and preventive health strategies to ensure improved health status. It also addresses issues of management reform in all areas. During 1996–2001, the most important program benchmarks under HSDP were met. Health sector funding increased by 65%, financing for rural health care increased by more than 10% per annum, and allocations for drugs and supplies rose to exceed 31% of expenditures of the Ministry of Health.

Despite these efforts, health outcomes have not improved. A review of the National Health Plan 1996–2000 revealed deterioration in several indicators, such as a drop in immunization coverage, a rise in mortality from malaria, an increase in malnutrition, and widespread shortages of medicines. The infant mortality rate rose from 72 to 77 per 1,000 births over the same period; PNG was the only country in the Pacific to record an increase in IMR. Significant urban and rural differences in IMR remain: 33 and 86 per 1,000 live births, respectively. Importantly, there are indications that PNG may soon face a serious HIV/AIDS epidemic.

A 2001 review of HSDP found a number of factors that explained the continued poor performance of the health system, including a lack of performance culture in the management of the health system and a failure of provincial authorities to accord priority to the health sector in their budget allocations. While health policy is generally sound, confusion remains over family planning responsibilities and the need to target special assistance to the vulnerable and poorest. Implementation of health policy is weak and suffers from numerous deficiencies, the most notable being an almost total lack of supervision.

HSDP did not succeed in preventing the slow and steady collapse of the health system in rural areas. The HSDP experience demonstrates that an increase in resources for health, as achieved over the program period, and achievement of agreed reform benchmarks do not per se lead to improved output indicators or health outcomes. In PNG, the delivery of public services faced challenges that were intrinsic to the development context—complex governance structures with a large degree of decentralization at local levels, which were ill-prepared to deliver services; and a budgetary system that could not ensure that funds reached local levels and were spent on services. In addition, the demographic and geographical features of PNG make health service delivery difficult and expensive. These features include small communities in remote locations, rugged terrain, limited transport and other services, and ethnic differences that make postings in districts and beyond unattractive to public servants. Moreover, the lack of transport services impedes the extent to which other services can reach remote locations. Land ownership conflicts and a neglect of maintenance also make it difficult to sustain improvements in public services.

ADB’s regional cooperation initiatives began with the Greater Mekong Subregion (GMS) Program in 1992. Now such initiatives span the entire Asia-Pacific region. The GMS Program and the other regional cooperation programs that followed have, inter alia, emphasized infrastructure provision, particularly infrastructure promoting physical connectivity between the countries and facilitating expansion of trade and other economic relationships. Thus, of the total GMS loan program till March 2004, all 17 projects that have been approved (both national projects with subregional dimensions and purely subregional projects), amounting to $1.9 billion, are largely infrastructure projects (although in later initiatives, components emphasizing the “economic corridor” were introduced) in transport, energy, and tourism sectors. In the case of the other regional cooperation initiatives, the experience is broadly similar.

The GMS Program accomplished much. Economic linkages among the six countries have been strengthened through a series of infrastructure projects. A framework agreement has been signed by the governments of Cambodia, Lao PDR, Thailand, and Viet Nam to facilitate the cross-border movement of goods and people, covering such issues as customs procedures, rights of cross-border passage for vehicles and drivers, vehicle and load specifications, insurance provisions, and transmit or user fees. In addition, significant progress has been made concerning trade in energy and in establishing a telecommunications network for the subregion. The two hydropower projects, amounting to $380 million, were breakthroughs, both in terms of bilateral partnership (between Lao PDR and Thailand) and private sector participation. They have also promoted power-sharing arrangements on a multilateral basis, along with technical assistance.

Although loan resources have focused on infrastructure projects, technical assistance grants have also been provided by ADB and cofinancers in a wider area, including human resource development, tourism, the environment, trade and investment, and poverty reduction. Human resource development initiatives include harmonization of training standards and accreditation/certification; mitigating the trans-border spread of communicable diseases; and improvement of health and education services for ethnic minorities in border areas. Subregional cooperation has led to establishment by the private sector of the Mekong Tourism Forum. The GMS Program countries have also established the Agency for Coordinating Mekong Tourism activities. The agency oversees a variety of training, promotion, and planning activities to strengthen the sector. Environment initiatives have included joint monitoring and information systems; training and institutional strengthening; area-specific projects to protect the natural resource base; and a comprehensive strategy for sustainable development. Trade and investment initiatives have been closely coordinated with the Association of Southeast Asian Nations (ASEAN) and the Economic and Social Commission for Asia and the Pacific, to avoid duplication of efforts and to focus on local area impediments. The GMS Business Forum was recently established to promote private sector participation in the GMS Program. Poverty reduction initiatives include promoting NGO support for poverty reduction, improving community and industrial forestry in upland communities, and a study of how markets can work for the poor.

The GMS Program has been a catalyst for scaling-up poverty reducing initiatives at the regional level. ADB has provided $772 million in loans for subregional infrastructure projects and mobilized a further $234 million for cofinancing them. In addition, $79 million in technical assistance has been provided by ADB, cofinancers, and the GMS governments. Most important of all, the GMS Program has served as a catalyst for the member countries to take their own

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7 Other subregional cooperation initiatives include the Central Asian Regional Economic Cooperation; South Asia Subregional Economic Cooperation; Central and South Asia Transport and Trade Forum; Brunei, Indonesia, Malaysia, Philippines East ASEAN Growth Area; and Pacific Islands Subregional Cooperation activities.
initiative in forming transnational cooperation agreements. Examples include the opening of new air routes and international airport designations in the subregion (e.g., Siem Reap, Louang Phrabang) and the Quadripartite Agreement on Commercial Navigation along the Upper Reaches of the Mekong River. Bilateral agreements include Lao PDR’s access to Sihanoukville Port in Cambodia; the opening of the railway bridge linking PRC and Viet Nam at Lao Cai; and Thailand’s energy needs, leading to hydropower projects in Lao PDR and development of the natural gas fields in the Gulf of Martaban, Myanmar.

75. The emergence of a new trade area with improved economic infrastructure has attracted investor interest, promoting economic growth and social development in the subregion. Net foreign direct investment flows from the six GMS economies to Cambodia, Lao PDR, Myanmar, Thailand, and Viet Nam combined rose sharply from $130 million in 2000 to about $210 million in 2002 while the share of intraregional trade doubled from 6% to 12% between 1992 and 2002. The GMS Program has also had a peace dividend—it has contributed to trust and better relations among the member countries. Indeed, in terms of contributing to an environment conducive to scaling-up poverty reducing interventions, peace and mutual respect between neighboring states may be the most important contribution of this regional cooperation initiative. Box 8 discusses a number of the reasons why the GMS initiative has proven to be so successful for scaling-up poverty reduction at a regional level.

V. CONCLUSIONS

76. Just a few decades ago, Asia was mired in mass poverty, hunger, and famine. Nearly half of the population was considered to be living in absolute poverty and there were grave doubts that Asia could feed itself, much less improve living standards of its rapidly growth populations. Asia’s leaders and people have faced these challenges, adjusted to changing circumstances, and remained steadfast in their commitment to a better tomorrow. Those who have gone the farthest have learned from their past. They have succeeded in developing agriculture and the rural areas, while capitalizing on buoyant global markets. In each of the past four decades, Asia has led the world in poverty reduction, an accomplishment worthy of pride and admiration. There is much to be learned—and to be scaled-up—from the vast array of poverty reduction experiences in Asia and the Pacific. This holds especially for the global leaders in economic growth and poverty reduction, such as the PRC. The PRC today is proof that strong, long-lasting commitment by national leaders to abolish poverty can produce spectacular results.

77. But progress in poverty reduction is far from complete. While East Asia recovered more quickly than predicted from the financial crisis of 1997, it remains home to a large proportion of the world poor, and challenges still remain in the areas of economic restructuring and poverty reduction. After a long period of slow growth, South Asia has seen an encouraging acceleration in growth and progress on poverty reduction during the past two decades, but the distribution of the benefits has been uneven, and South Asia still accounts for the largest proportion of the world’s poor. There are new threats to Asia that could potentially cast large numbers into poverty, and must be addressed. The spread of terrorism, Severe Acute Respiratory Syndrome (SARS), other contagious diseases, and the specter of an Asia-wide HIV/AIDS pandemic threaten the well-being of all, and especially the poor. Asia’s high rates of economic growth have come at a cost, and the burdens of environmental degradation and urban congestion have been borne largely by the poor. Ensuring that future poverty reduction efforts are both effective on a large scale and environmentally sustainable remains a major challenge. And, as the experience of the late 1990s so clearly illustrates, the world financial markets are risky and
volatile. Asia’s markets must manage these risks, bearing in mind that financial market crises and contagion are hard to predict, and can set progress back in even the strongest emerging economies.

**Box 8: Scaling-up Poverty Reducing Interventions at a Regional Level: How has the Greater Mekong Subregion Succeeded?**

The Greater Mekong Subregion (GMS) is one of the world’s fastest-growing subregions. With the exception of Thailand, which was directly affected by the Asian financial crisis, growth has remained about 4% or higher in all of the economies (members are Yunnan Province, People’s Republic of China; Cambodia; Lao People’s Democratic Republic; Myanmar; Thailand; and Viet Nam) for the past decade. In turn, this pace of growth has significantly impacted on poverty reduction in most countries and dramatically improved human development attainments in all of the participating countries.

One of the important driving factors of the GMS has been the strong commitment at the highest levels of participating governments to fostering market-based regional cooperation. There has been general acknowledgement in the region that increased trade and investment will result if markets are made to function better and serve the poor. The general experience is that the most successful regional groupings have been those in which the region as a whole tends to grow together.

Inherent in the GMS approach is a process of continuous learning and adaptation. For instance, GMS members endorsed a shift in focus in the transport area from simple road projects to a broader economic corridor approach, partly in response to initial implementation experiences. In recent years, GMS members have accorded greater attention to environmental and social issues. The most recent strategy document for the GMS takes the program to a further stage of cooperation, by emphasizing common management of natural resources and cooperation in public health and regional safety and security. Key lessons from the manner in which poverty reducing interventions were scaled-up in the GMS include the following:

**Flexible, Phased, and Activity-based Approach.** The GMS Program has focused on activity-based initiatives to secure reforms and facilities that promote connectivity. This approach, as contrasted with an approach that starts by defining rules and protocols, was well appreciated by governments concerned. As a result, GMS countries have reached numerous agreements, both bilateral and multilateral. The relatively non-institutional nature of the GMS Program, with its minimum of protocols, bureaucracy, and other formal structures, gives the members flexibility to reach agreements that best suit participants.

**Equitable Sharing of Costs and Benefits.** It is essential, even from the project design stage, to ensure equitable sharing of costs and benefits. This principle has been followed in important subregional infrastructure projects such as the East-West Corridor and North-South Corridor projects.

**Need for Broad-based Participation.** Economic cooperation initiatives should reflect the views of all stakeholders. While central ministries were extensively involved in the decision-making processes, local officials, civil society, NGOs, and the private sector were not always adequately represented in the initial years. Subsequently, steps were taken to make the GMS Program more inclusive.

**Need for Capacity Building.** GMS countries needed to build their capacity to formulate and implement projects involving two or more member countries, and to pursue regional cooperation more generally. Capacity-building interventions were especially important in countries in transition from centrally planned to market-oriented economies.

**Country “Ownership”.** Ownership of the GMS Program by member countries has been high with sustained high level of participation in GMS meetings. High-level national leadership of regional cooperation has been a key feature of the Program.

**Cross-sector Linkages.** The sector approach of the GMS Program, while highly useful, had greater economic and social impacts when complemented with mechanisms for cross-sector linkages. For example, combining transport initiatives with business development support helped to lower transaction costs and improve market awareness simultaneously.

**Attention to Social and Environmental Dimensions.** During the early phases of the GMS Program, the social and environmental implications of subregional infrastructure development projects were not adequately assessed. Increasing attention is being paid to ensure exhaustive assessment of the social and environmental implications of infrastructure projects at all stages of planning and implementation.

**Role of Resource Mobilization.** Substantial mobilization of support from the donor community has been essential to the success of the GMS initiative. However, in some cases, a lack of timely provision of resources and complications in financing have often slowed down key projects. Another key lesson is the need to provide adequate funding for maintenance, so as to ensure that expected returns from infrastructure projects are realized. Source: ADB (2002).
78. What is needed to scale-up the poverty reduction effort in Asia and the Pacific? This is a tremendously diverse region that has learned how to use market forces—and especially globalization—to inspire high rates of growth and improved living standards. It is a region that has access to and makes effective use of a wide array of technologies. The skill base is improving everywhere and increased labor mobility in the region helps to bring skills to where they are needed the most. Asia’s leaders are committed to eradicate poverty, and with large inflows of both private and official capital, and foreign exchange reserves of nearly $2 trillion, there is certainly financing available for worthwhile initiatives.

79. The DMCs need to draw lessons from what has worked, both regionally and globally, to contextualize these lessons, and to adapt solutions appropriate to the varied circumstances of the poor in their countries. Those countries that learn well tend to scale-up poverty reduction interventions the fastest and the most sustainably. This points to the importance of relevant knowledge, both on site-specific poverty conditions and on the options available to address it on an ever larger scale.

80. Development resources are in short supply, and those available must be utilized to their greatest effect. While the lessons of economic growth and poverty reduction in Asia are bountiful and varied, the time and expense of capturing and learning these lessons cannot be repeated for each and every intervention. Effective management of new knowledge is essential to ensure that poverty reduction interventions are adequately informed in a timely and cost-effective manner.

81. Putting knowledge—global, regional, and contextual knowledge—to work in the war against poverty is the single best guarantee that poverty reduction interventions will attract adequate finance. No government wishes to deploy its resources on interventions that are unlikely to succeed. Effective interventions will attract finance, either from government resources, the private sector, or the donor community.

82. Ultimately, it is the DMCs that scale-up poverty reducing interventions, and it is ADB’s mission to help DMCs build the capacity needed to scale-up poverty-reducing interventions effectively, efficiently, and sustainably. Learning, contextualizing, and adapting are fundamental to the success of the scaling-up process by the DMCs. Ensuring that information is widely available, that clear commitments are made to poverty reduction, and that the public sector is held accountable for its performance, can help to inspire governments to learn and to deliver effective poverty reduction interventions. Education, a free press, a robust civil society, and steady improvement in governance, while valuable in their own right, are vital to inspiring government and its partners in development to draw on accumulated knowledge, to learn lessons, and to use that information to scale-up poverty reduction interventions.

83. ADB has evolved from a project lender to a full-service development assistance agency. Poverty reduction was always a concern of ADB, but since 1999, it has become the organization’s overarching objective. Scaling-up poverty reduction interventions is central to ADB’s mission because combating poverty on an increasing scale is precisely what ADB seeks to accomplish. ADB is improving its country focus to better draw on location-specific knowledge in order to contextualize poverty reduction interventions. At headquarters, ADB has reorganized its operations to reinforce country focus and to ensure that knowledge is effectively mobilized and managed to scale-up poverty reducing interventions. ADB is learning to manage knowledge effectively to assist the DMCs meet their financial, public policy advice, capacity-building, and information requirements to scale-up poverty reduction interventions (Figure 7). In accordance with the 1999 PRS, new assistance modes, management systems, organizational structures
and competences, and partnerships have been introduced to sharpen the focus and enhance the impact of ADB’s poverty reduction interventions. These interventions, ranging from assistance at the pilot, project, and sector levels to the regional level, are explicitly designed to scale-up the impact of poverty reduction interventions and to draw lessons that can be used to inform interventions in other settings. While no two episodes of poverty are precisely the same, lessons drawn from similar cases of poverty reduction can combine to create powerful models for larger-scale poverty reduction.
The concept of scaling-up is visualized as emanating from knowledge management and evaluative research. Different facets of scaling-up are shown to be unfolding in varying shades of dark lines, depending upon the context. The figure attempts to convey that successful scaling-up takes form as a result of interaction between past learning and the new context.
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