

V. Poverty Reduction in Projects

This chapter introduces the major changes brought about by the Enhanced Poverty Reduction Strategy (EPRS) on project development. Projects must be linked more strongly to the poverty reduction outcomes of country partnership strategies (CPSs). Changes in the project classification system have been introduced to better address the objective of poverty reduction. The category of projects that need detailed poverty analysis has been simplified. Where poverty analysis would be needed—such as projects targeted at household or individual beneficiaries, and for program lending—the quality of such analysis needs to be improved.

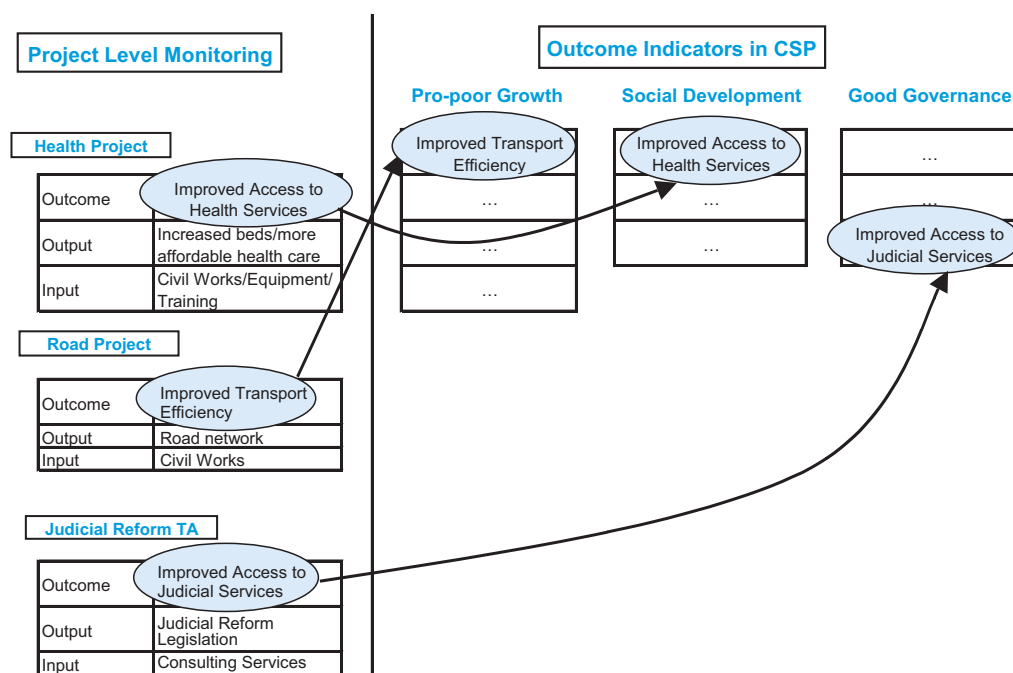
A. Projects as Instruments for Contributing to Country-level Outcomes

The results of the country programming process, culminating in the CPS paper, provide the overarching framework for selecting and designing all lending and nonlending activities within ADB's project portfolio. This section of the handbook provides guidance and suggestions for undertaking preparatory work during the pre-design and design phases of the loan cycle.

The impact of the Asian Development Bank (ADB)'s poverty reduction efforts in a country results from the effect of its overall operations through the implementation of the CPS. Individual projects contribute to this overall outcome. All projects will need, therefore, to be justified within the context of CPSs, and their outcomes will be closely aligned with CPS goals, objectives, and monitoring results. Projects will be strategically linked to poverty reduction within the CPS and the poverty impact of ADB assistance will be monitored and evaluated at a strategic level, in terms of the three pillars—thematic- and sector-level results that ADB assistance contributes to. Each lending or nonlending project will be linked to one or more country-level outcome indicators. For example, a road project can seek to achieve the target for the road network under the pro-poor growth pillar, while a health project can help meet the availability of the health service target under the social development pillar.

Design and monitoring frameworks for individual lending or nonlending projects will continue to include sector-level outcome indicators, targets, and monitoring mechanisms. Linkages between project outputs and sector outcomes will be clearly shown in the sector road maps. The CPS will collate these outcome indicators to demonstrate the overall contribution of the country program to outcomes at the level of the pillars and thematic priorities. An illustrative example of the manner in which projects will be linked to country level outcomes is shown in Figure 5.1.

Figure 5.1: Linking Projects to Country-level Outcomes



B. Project Classification

The poverty impact of ADB operations in a country will be assessed primarily at the level of the country program through results-based CPSs, rather than at the level of individual projects. Changes in the project classification system have been introduced⁵⁰ to more appropriately track ADB operations in terms of the EPRS framework. Apart from classification in terms of sectors and themes, all projects will be also classified as either targeted interventions (TIs) or general interventions (GIs). There is no longer any institution-wide lending target for any category of interventions, and the choice of the type of mix of projects that would most efficiently reduce poverty would be based on country-specific considerations. Both GIs and TIs are important in their own ways in reducing poverty—*indirectly in the case of the former, directly in the case of the latter*. The type of each project in the program chosen is to be decided during CPS formulation, to be determined according to the specific poverty reduction needs of the country.

General Interventions. General interventions refer to those interventions that reduce poverty in an indirect manner. This would include interventions that generally improve the enabling environment for pro-poor growth, social development, and good governance. This could involve investments in economic and social infrastructure, institutional capacity building, and support for policy and institutional reforms in key sectors and thematic areas. The Enhanced Poverty Reduction Strategy (EPRS) of 2004 notes that “ADB’s main strengths lie in financing relatively large investments with medium- or long-term impact and in conducting dialogue with governments to

⁵⁰ See Consolidated Staff Instructions *Updating the Project Classification System*. December 2004.

support policy and institutional reforms that have a widespread, indirect impact (p. 5).” Investments aimed at improving the operations of specific sectors, or at developing major infrastructure, reforming the financial sector or the enabling environment for the private sector would typically assist the process of poverty reduction in an indirect manner. There are a number of reasons why ADB’s main strength is generally in providing assistance to poverty reduction indirectly, through general interventions, including: i) as a multilateral institution, ADB has the competence, neutrality, and assistance instruments required to engage and assist the government in reforming sector policies and institutions while supporting sector investment programs; ii) ADB can provide or mobilize sufficient financing to undertake major investments which other partners may not have the resources to support; iii) ADB assistance can be used to scale up to the sector level interventions which have been successfully piloted by other partners/stakeholders; and iv) experience, particularly in East Asia, suggests that easing the general constraints to economic growth and social development can play a powerful role in reducing poverty.

Targeted Interventions. Where the poor are “trapped” by geographical, cultural, or social circumstances, targeted interventions may be required to ensure equal opportunities to overcome those disadvantages and to participate in mainstream development. ADB projects will be classified as targeted interventions if they focus on households, on sectors/subsectors directly supporting achievement of the Millenium Development Goals (MDGs) relating to non-income poverty, or on addressing key constraints to poverty reduction in specific geographic areas.

Household Targeted Interventions. ADB assistance is frequently targeted to reach large concentrations of poor beneficiaries in subsectors such as rural development, rural water supply, community development, microfinance, and social protection assistance. The rationales for providing targeted assistance to poor beneficiaries/households are that: i) general interventions working in an indirect manner may not be effective in addressing the specific problems causing poverty and deprivations in poor households which may require targeted interventions tailored to specifically address the causes of the deprivations; ii) targeted interventions can be designed such that the poor are able to capture a larger share of project benefits than the nonpoor; iii) that ADB can assist the government target effectively and scale up techniques and proven approaches to empower these target poor groups so that they can better participate in the development process; (iv) facilitating participation of the poor in efforts to address site-specific constraints to poverty reduction is an additional factor motivating the use of assistance approaches targeted to site-specific groups of poor households/beneficiaries. It should be recognized, however, that it is generally costly to target assistance effectively to poor households; that some leakage of assistance benefits to the nonpoor will invariably occur; and that the need to tailor the design of such projects to the diverse needs of poor beneficiaries is costly to design and supervise. For these reasons, interventions targeted to poor households are often undertaken in partnership with nongovernment organizations (NGOs) and community-based organizations that have the capacity to facilitate participation and have a large presence in the field.

MDG Targeted Interventions. As noted in Chapter 1, progress in achieving the non-income MDGs is lagging progress in reducing income poverty. ADB recognizes that an inclusive approach to income growth and social development is required if poverty reduction were to be sustained over the long-term. ADB assistance can be targeted to assist countries achieve their non-income poverty reduction goals and targets. This is particularly important in those areas where countries

are lagging behind their MDG commitments. ADB support for assistance in health, education, gender empowerment, and environment are often tailored to assist the governments of developing member countries (DMCs) address binding constraints to improvement in non-income living standards. However, it is not only interventions in these sectors that can be deployed to address constraints to non-income poverty. When, for example, remoteness is a key cause of poor health and education outcomes, the appropriate MDG-targeted intervention might be in the area of rural transport. When a lack of power facilities in the village is the main impediment to a successful vaccination program, then the appropriate MDG targeted intervention would be in the area of rural electrification. In other words, MDG targeting involves identifying and shaping the intervention(s), possibly in several subsectors, that are needed to address critical constraints to the achievement of MDG-related non-income poverty goals in nutrition, health, education, gender, and environment.

Geographically Targeted Interventions. Development rarely proceeds uniformly, leaving many geographical areas within countries undeveloped with high concentrations of the poor. The developmental needs of these areas are often specific to them needing geographically focused remedial interventions. In countries with significant heterogeneities, the use of geographic targeting is particularly relevant given the diversity of poverty across regions. The interventions required by each region will therefore vary, depending on physical conditions, quality of human capital, and other endowments. Such interventions could often turn out to be the most cost-effective means to address poverty. This has led to the increasing popularity of the geographical targeting approach in identifying project areas for poverty reduction. Its strong appeal stems from its lower administrative cost compared to other targeting methods and ease of implementation especially in the face of limited information about individual and household characteristics. Geographical targeting is often used in developing countries along with additional targeting criteria to increase the chances of covering the poor. The criteria that need to be satisfied for geographic targeting is that ADB assistance should be located in geographical areas with higher incidence of poverty than the national average, and that such geographically targeted projects must also address significantly the constraints responsible for the backwardness of the areas. Mere location of projects in such areas will not be sufficient. There are different approaches to geographic targeting, depending on the amount of information used. In most cases of geographical targeting, the general aim is to identify a few indicators that are strongly correlated with poverty and could be easily measured at low cost. The use of more indicators or categories may enable more precise targeting, but this would entail higher administrative costs.

Projects will be classified as targeted interventions if they are targeted at the household, geographic, or are aimed at contributing to the non-income MDGs, as follows:

- ❑ **Household (TI-H).** The defining characteristic of such projects is their concern for beneficiaries: the proportion of poor among project beneficiaries will be significantly larger than their proportion in the overall population of the country, and in no case less than 20%. The proportion of the poor defined to be benefiting from the project should be made using the national, urban, or rural poverty lines as agreed with the DMC.
- ❑ **Geographic (TI-G).** Projects located in geographic areas with a significantly higher poverty incidence than the national average and in line with the geographic emphasis in the

NPRS or CPS will qualify for TI classification, irrespective of whether their impact on poverty is direct or indirect. The project must, however, significantly address constraints that are responsible for the poverty in the area. Mere location of the project in the geographical area is not sufficient for the TI (G) classification.

- **MDG TI (M1–M7).** Projects with a direct impact on the non-income dimensions of poverty as represented in MDG 1 (Hunger Target) and MDGs 2–7 will qualify under this classification when it is clearly demonstrated that the project is directly contributing to one of the non-income MDG goals and targets. The main intended project results should clearly specify the MDG goal, targets, and indicators to be used. The project must address the binding constraints to the relevant MDG. Projects with M1-M7 classification that support MDGs in the short to medium term should include the intended achievements in the outcome level of the project logframe, specifying the MDG to be addressed, targets, and indicators.

C. The Initial Poverty and Social Assessment

All public sector projects require an initial poverty and social assessment (IPSA).⁵¹ The IPSA should clearly state whether the project is a general intervention or a targeted intervention. If the latter, it should identify the nature of targeting proposed: H, G, or M and provide justification. If it is a TI-H project then detailed poverty analysis will have to be undertaken in the project preparatory technical assistance phase. Only those projects that are targeted toward households require a full poverty and social analysis (PSA) during project design stage, although the other categories of projects may require further social analysis if there are indigenous persons, gender, relocation, or other social issues identified at the IPSA stage and in line with the requirements set forth in specific operations manual sections (OMs). Table 5.1 summarizes the revised requirements. More detailed guidance on SA is contained in the (forthcoming) ADB Handbook on Social Analysis, and in OMs C2, C3, F2, and F3.

Table 5.1: Project-specific Poverty Analysis Requirements by New Project Categories

Project Type	Preparation Requirement		
	IPSA	PSA	SA*
Targeted Intervention – Household	✓	✓	
Targeted Intervention – Geographic	✓		✓
Targeted Intervention – Non-income MDGs	✓		✓
General Intervention	✓		✓

Note: IPSA = initial poverty and social analysis; PSA = poverty and social analysis; SA = social analysis.
 ✓ indicates that the corresponding analysis has to be carried out.
 * Contingent on IPSA requirements and requirements of specific OMs.

⁵¹ Private Sector Projects may or may not require an IPSA depending on the nature of the project. See Staff Instructions *Assessment of the Impact of Programs Loans on Poverty*, 28 March 1995.

The IPSA should be undertaken as early as possible in project preparation, and preferably at the time of fact-finding for a project preparatory technical assistance, to identify the key poverty reduction and social development issues for in-depth analysis during the design phase. The IPSA is a scoping exercise, aimed at identifying the key issues and detailed tasks, resource requirements, time frame, and personnel required for the subsequent design phase. With respect to poverty reduction, the IPSA should: flag poverty issues to be included in the terms of reference for the design phase for targeted interventions; and confirm that the project has been identified as a national priority in the CPS.

The IPSA is conducted primarily to determine the scope of the poverty and social issues that may require special attention and need to be addressed during project preparation to maximize poverty reduction and social development impact, and avoid or mitigate any negative effects of the planned intervention. Information needed for the IPSA is normally gained from a range of primary and secondary sources, typically including the CPA, the NPRS, sector work, previous projects, government statistics, past surveys, implementing agencies, other funding agencies, researchers, NGOs, and other stakeholder groups. Because secondary data are sometimes patchy, unreliable, or biased, it is important to cross-check critical information with alternative, knowledgeable informants and, in particular, through a sample of the project's proposed clientele. The poverty analysis portion of the IPSA will

- (i) Validate that the proposed project relates to national priorities as identified in the CPA, in the priorities identified in the CPS, and in the NPRS;
- (ii) Describe the contribution of this project to achieving the poverty reduction objectives set for the sector in the CPS;
- (iii) Identify ways of improving the poverty reduction contribution of the project; and
- (iv) Assess whether vulnerable groups will be worse off as a result of the project, and assess the necessity for mitigating measures.

An example of the poverty sections of the IPSA for the 2005 Indonesia Rural Infrastructure Support Project is provided for illustration in Box 5.1.

The IPSA is finalized during the technical assistance fact-finding mission in order to produce an IPSA Report, including a brief poverty analysis. If the fact-finding mission validates that the project is targeted toward poor beneficiaries or households, then the IPSA will identify what detailed poverty analysis will be needed during the design phase. Only in this case, will the IPSA include the terms of reference for all poverty analyses required during the design process, including resource needs, expertise required, responsibilities, and time frame.

The IPSA of the technical assistance fact-finding mission is reported using a *Summary IPSA Report Form* (see Table 5.2).⁵² This summary report confirms the links established between the choice of sector or project and the identified priorities of the NPRS and the CPS.

⁵² The forthcoming *Handbook on Social Analysis* provides guidance on the social development components of the IPSA form.

BOX 5.1: THE POVERTY SECTIONS OF THE IPSA: THE INDONESIA RURAL INFRASTRUCTURE PROJECT

The following is a quotation from the IPSA for the Project:

“Regional disparities are both a cause and effect of poverty, contribute to social stability, and impede nation building... The Medium-Term Development Plan 2005–2009 reserves a chapter for reducing disproportionate development under the general heading of improving social welfare. This chapter notes the welfare of these areas need greater government concern for their development. These are areas with (i) limited access to transportation to connect them to more developed areas, (ii) lacking in human and natural resources; (iii) have low and scattered populations, and (iv) have not been given priority by regional government because they are not deemed as having revenue generating potential. These are areas in an unequal race, lacking institutional infrastructure supporting sustainable economic development, and undercovered by public services. Rural infrastructure, access roads, fish landing sites, improved markets are all fundamental underpinnings for reducing rural poverty. The Country Poverty Assessment and Poverty Partnership Agreement identify regional disparity and inadequate rural infrastructure as key poverty reduction issues. ...”

The IPSA goes on to categorize the project as a geographically targeted intervention, and hence does not require further poverty analysis as part of project design, on the following grounds:”

The targeted districts belong to the category of districts designated by Government as disadvantaged, are poor in terms of human and natural resources with limited access to economic centers that could spur their development, and, thus, require additional attention by Government. Their common attributes are high levels of poverty, low participation rates in school, low levels of education in the working age population, high dependence on agriculture, and low access to safe water. The proposed project provides essential village level infrastructure selected and developed by the community from a closed menu of infrastructure. The closed menu ensures that the infrastructure contributes to poverty reduction and achievement of MDG needs, the benefits are widely captured, and local Public Works offices have the capacity to provide technical support. The absence of village infrastructure is a strong correlate for poverty. A nonpoor household is 1.4 times more likely to be living in a village accessible by road 12 months out of the year and 1.4 times more likely to be living in a village with electricity. The participatory process ensures that within this closed menu, priorities of both the men and women, and poor and nonpoor are met and a sense of ownership is developed. The community as contractor approach further instils ownership and transparency and provides opportunities for income generation in areas of high underemployment.”

Source: ADB. 2005. *Initial Poverty and Social Assessment: Indonesia: Rural Infrastructure Support Project*. Project Number 39597.

Table 5.2 Initial Poverty and Social Analysis

A. Linkages to the Country Poverty Analysis, CPS, and National Poverty Reduction Strategy			
Is the sector identified as a national priority in NPRS and CPA?	<input type="checkbox"/>	Yes	<input type="checkbox"/>
	<input type="checkbox"/>	No	<input type="checkbox"/>
Is the sector identified as a priority for ADB assistance in the CPS?	<input type="checkbox"/>	Yes	<input type="checkbox"/>
	<input type="checkbox"/>	No	<input type="checkbox"/>
Contribution of the sector or subsector to reduce poverty in {name of developing member country}:			
B. Poverty Analysis		Targeted/General (if Targeted, in which way)	
What type of further poverty analysis is needed? (*)			
* Note: This would only be required for projects that are classified as targeted interventions to poor households/individuals TI(H).			

D. Poverty Analysis for Targeted Intervention (Household/Individual) Projects

1. Objectives of the PSA for Household-targeted Projects

Project loans normally consist of specific investments in determined areas. Only those projects that **target poor individuals or households** require the preparation of a full PSA during project design.⁵³ The poverty analysis portion of the PSA can assist the team in determining the magnitude and likely impact of a given project on the poor. As for IPSA, the scope and depth of the PSA vary according to the loan objectives and the complexity of social issues. The poverty analysis portion of the PSA can be a useful tool for comparing the potential poverty reduction impact of alternative design options, enabling the project team to design strategies that will maximize the poverty impact of the proposed intervention. A range of methodologies is available, including qualitative and quantitative techniques, approaches to examine direct and indirect effects, distribution impacts, and other analytical tools and practices.

Confirm project rationale and targeting approach. In the first instance, the poverty analysis in the PSA is used to confirm the dimensions of poverty and vulnerability, and the expected direct and/or indirect contribution of the project to poverty reduction, as identified in earlier programming and project preparation stages. It identifies the target group—i.e. the people or beneficiary households who are likely to be benefited by the project, either positively or negatively—and validates the efficacy and efficiency of the approach used to target these groups. Barriers and constraints, institutional weaknesses, absorptive capacity constraints, gender gaps, sustainability issues, and other social and institutional risks are also identified.

⁵³ See the *Handbook on Social Analysis* for guidance on incorporating social dimensions in the design of targeted intervention projects.

Make appropriate design choices. Recognizing risks and their human and financial costs often can be a powerful factor in shaping an effective project design. The poverty analysis in the PSA helps identify measures that will contribute to maximizing the poverty reduction outcomes of the targeted intervention and to shaping those measures that will turn risks into opportunities. By identifying poverty reduction risks, opportunities, and constraints, an in-depth poverty analysis in the PSA allows some prediction of likely outcomes for different groups. It also helps establish an effective participatory process and prepare specific design measures for achieving poverty reduction outcomes during project implementation. The poverty analysis provides a useful tool for examining project alternatives that will support poverty reduction objectives in any of the following ways:

- Extend opportunities for the poor and excluded to benefit from the project;
- Facilitate empowerment, overcome barriers, and increase ownership by the poor; and
- Reduce risk and increase security for poor and excluded groups.

2. Key Steps

Validating the Targeting Approach. One of the main functions of project-specific poverty analysis is to validate the technique used for targeting poor beneficiaries or households. Strict targeting involves expense, requires administrative capacity to implement, and may face political resistance.⁵⁴ Four main targeting methods are available:

- ❑ **Categorical targeting:** Benefits are provided to a specific population group, such as mothers, children, or communities in a specific geographical area. This is the easiest targeting method, but leakage to the nonpoor is normally large.
- ❑ **Means testing:** Means-tested targeted programs provide benefits to individual households under certain criteria (e.g., households below a certain income level). Means testing is more accurate in targeting poverty, but it has larger transactions costs.
- ❑ **Proxy means testing:** This is a subset of means testing in which targeting is done through other (easy to collect) indicators or proxies of the level of income/poverty of beneficiaries. For instance, give discretion to local government or to community groups since they know who is in need. Proxy means testing is less expensive and also less accurate than means testing. Other examples of proxies could include landlessness, a high number of squatters, predominance of scheduled castes, poor quality urban dwellings, and absence of basic services such as potable water and an accessible primary school.
- ❑ **Self-selection:** Self-selection avoids moral hazard by imposing disincentives on program participants, either because the benefits are too low or because there is some social stigma associated with them (i.e., food-for-work programs or public works, as normally only those truly in need would accept them).

⁵⁴ See Coady, David, Margaret Grosh, and John Hoddinott. 2004. *Targeting of Transfers in Developing Countries: Review of Lessons and Experience*. Washington DC: The World Bank.

BOX 5.2: HEAD-COUNT APPROACH IN LAO PDR NORTHERN COMMUNITY-MANAGED IRRIGATION SECTOR PROJECT

The Project made use of a head-count approach drawing on both a national expenditure survey to identify poor provinces, and a small-sample beneficiary survey to identify districts with a disproportionate share of poor households. The beneficiary survey used selected household characteristics (family size, literacy, access to land that could potentially be irrigated, and access to services) and reported rice adequacy as proxies for poverty status. The project's poverty targeting was refined through a detailed poverty analysis and is described in the report and recommendation of the President as follows:

"Of an estimated population of 5.5 million in the Lao People's Democratic Republic (Lao PDR), about 30% live below the poverty line. This is defined as being where a person cannot access the equivalent of 2,100 calories in foodstuffs or the equivalent of KN142,500 per month or less than \$0.50 per day. The Lao PDR defines this as the food poverty line. The Lao PDR also differentiates between average poverty lines for urban and rural areas and between different regions. The per capita per month poverty line is upward of 30% higher in Vientiane than in the rural areas of the Lao PDR. The poorest province in the project area is the northern province of Huaphanh (74.6%), followed by Xaysomboun Special Region (55%), Luang Prabang (49.4%), Xiengkhuang (34.9%) and Xayabury (21.2%) living below the poverty line. For the project area as a whole, an estimated 45% of the population lives in poverty. If the urban population is excluded in these provinces, over half the rural population is living in poverty. The project area also contains some of the severest forms of poverty (ultra-poor) in the Lao PDR. Huaphanh has the most severe form of poverty (11.3% of people) followed by Xaysomboun Special Region (7.1%), and Luang Prabang (4.7%). The regional percentage at 6.8% is the highest in the Lao PDR (4%). For the selected districts in the project area, the incidence of poverty ranges from 88% in Sobbao to 13.6% in Thong Mixay.

Rice-deficit months have been used as one of the key quantitative indices to assess the extent of poverty in the project area. Of the different ethnic groups where over 80% of households are classified as poor, it is more likely that lowland Lao and Hmong experience some form of rice shortage. However, in all other villages where over 20% of households are living in poverty, these villages are likely to be where the Khmou are found in the majority. The Khmou nationally have an average rice sufficiency of 5.9 months compared to the Hmong of 8.1 months and the lowland Lao of 9 months. In the project area, the variation will occur on a village-by-village basis dependent on what access to land suitable for irrigation that the different ethnic groups have access to.

Household food insecurity needs to be measured not simply by lack of rice, but days on which households or specific members of households (e.g., mothers going without food to feed young children) state they actually experience hunger. There may or may not be food deficits on an occasional basis, but there is nowhere in the project area where people will go without food. Households will make up for the shortfall in agricultural production—irrespective of their ethnic background—by using forest resources for subsistence and income generation. Bamboo shoots, frogs, fish, and red-ant eggs are all examples of edible foodstuffs that are gathered from the forest to make up this deficit (p.33)."

Source: ADB. 2004. *Northern Community-managed Irrigation Sector Development Program*. RRP: LAO 34188. June.

The following factors may be considered in identifying targeting options.

- Are the poverty characteristics of the target group well defined and distinct from the nonpoor?
- Are proposed targeting characteristics easily and cheaply identifiable?
- Are there self-targeting options, such as daily labor or basic levels of service provision?
- Are there goods or services that are primarily consumed by the poor?
- Is underemployment, or seasonality of employment, a key poverty characteristic?
- Are differences in the poverty level of different groups large enough to justify a targeting mechanism that would distinguish between them?
- Do existing public services fail to reach the poor for reasons of defective governance or social/physical exclusion and, if so, will the proposed targeting mechanisms fail for similar reasons?

In some instances, it is possible to verify that a project is targeted to poor beneficiaries by drawing on secondary surveys that distinguish the poverty characteristics of the group that will be assisted by an ADB project from the general population. The use of secondary surveys is generally warranted in cases in which projects assist a large number of poor households in many parts of a country. The Indonesia Decentralized Basic Education project is an example of a project that used school assistance programs as a means of targeting poor households (Box 5.3).

The head-count approach is the most common way of validating the targeting approach. Its application is most appropriate for projects that are designed to create outputs captured directly by, or directly targeted to, well-identified groups of poor households. This approach is relevant for projects which deliver inputs and immediate group-specific outputs to large numbers of the poor within the jurisdiction of a project (see Box 5.3). Collecting data on the poverty status of expected project beneficiaries prior to and after the project is important for establishing a valid baseline and counterfactual for M&E purposes. Its emphasis on the specified categories of poor, and the immediate benefits that would accrue to them, is especially relevant in DMCs where the provision of basic services is one of the preconditions for enabling economic growth and development. Loans that provide assistance toward provision of basic services are obvious candidates for this category. These investments could be in areas such as child nutrition, drinking water, primary health including HIV/AIDS, basic education, low-income housing, agricultural and horticultural production, rural development including infrastructure (e.g., minor irrigation and rural roads), slum upgrading, habitat improvement programs, urban sanitation and drainage, drought relief and flood control, employment promotion, and training opportunities. In all these areas, targeting is direct and can be documented relatively easily.

The main steps in the head-count approach are as follows:

- Confirm the prevailing, nationally agreed poverty line(s) and national poverty prevalence;
- Select sample groups of expected project beneficiaries;
- Draw on existing surveys and already existing secondary sources of data and analysis to assess the proportion of the poor among the total project beneficiaries. Only in exceptional cases should it be necessary to survey a sample group of expected beneficiaries. Such

BOX 5.3: TARGETING ASSISTANCE TO POOR BENEFICIARIES: LOAN 1863-INO: DECENTRALIZED BASIC EDUCATION

Indonesia's Decentralized Basic Education project was aimed at improving poor children's enrollment, completion and learning outcomes in 21 districts in DKI Jakarta, Bali, and Nusa Tenggara Barat (NTB) while supporting decentralization of basic education management in the context of the administrative decentralization being-affected in Indonesia. The Project directly targets poor families, and it is expected to benefit 1.26 million primary and secondary schoolchildren, of whom 896,000 (71% of the total beneficiaries) are from families living below the poverty line.

Targeting was to be implemented through a two-step process based on area targeting and local knowledge about the school and their clientele, with allocations of funds to districts based on the incidence and depth of poverty. Within the three project provinces, allocation to districts was done based on the incidence and depth of poverty. Districts with a relatively high concentration of the poor will receive a high level and proportion of the school development fund as well as the district education development fund. Districts with a lower concentration of poverty will receive scholarship funds using appropriate criteria to target individual poor students. Within the districts, funds will be allocated to subdistricts based on a ranking of subdistrict welfare indicators. Primary and junior secondary schools will be targeted by different criteria to take into account local variables such as application-to-enrollment rates, low average scores on final exams, physical school condition, dropout rates and local knowledge based on survey feedback.

The project relied on existing survey data (i.e. the 1999 Socio-Economic Survey) to document the characteristics of the beneficiary groups in the three project provinces. According to the results of this survey, some 18% of the total population and 32% of the rural population were found to be poor. From the same survey, it was determined that poverty prevalence of families with children in schools receiving district education development funds (DEDF) and school development funds (SDF) support was 72%, which is well above the national average and far above the poverty prevalence in each of the three selected project provinces. This data was drawn directly from household expenditure and access to services information recorded in the household consumption survey (i.e. SUSENAS survey). Using the SUSENAS survey, an estimate was made of the expected number of beneficiaries in each of the three project provinces, and of the proportion of these beneficiaries that would, on the basis of the SUSENAS estimates, likely come from families with total expenditures below the national poverty line. From this, it was confirmed that the project would target children from families that were disproportionately likely to be poor.

Decentralized Basic Education: Estimated Project Beneficiaries

Indicator	DKI Jakarta	Bali	NTB	Total/Average
Population aged 4–15 years	1,931,044	637,447	1,138,918	3,707,409
Children 4–15 years below the poverty line	96,034	74,294	466,083	636,411
Percentage of children 4–15 years below the poverty line	5.81	10.83	41.18	19.27
Primary students at SDF schools	91,573	43,952	288,772	424,296
Junior secondary students at SDF schools	51,726	56,412	187,300	295,438
Beneficiary children				
SDF and DEDF beneficiaries	243,580	156,971	855,549	1,256,097
Poor primary SDF beneficiaries	168,211	64,360	479,223	709,794
Poor junior secondary school SDF beneficiaries	16,503	26,345	119,124	161,972
Poor DEDF beneficiaries	6,177	7,046	57,764	70,987
Poor SDF and DEDF beneficiaries	138,834	101,304	656,142	896,280
Percent poor to the total beneficiaries	58.00	63.33	76.57	72.25

DEDF = district education development fund; SDF = school development fund.

Source: SUSENAS 1999, as cited in the Project RRP.

surveys should include, among other indicators, measures of household consumption and expenditures (or income);

- Calculate the proportion of expected project beneficiaries that would fall below the poverty line;
- Identify the main poverty reduction outputs arising from the project and describe the link between these outputs and poverty reduction for the expected beneficiary group.

Benefit incidence analysis is a tool that can be used in the PSA for assessing the level of effective demand among different income groups for goods or services that are supplied on a partly or wholly subsidized basis (Table 5.3).⁵⁵ It shows who benefits from public services and describes how government spending affects the welfare of different groups of people. This type of analysis combines the cost of providing public services with information on their use to generate distributions of the benefit of government spending. The technique is most commonly applied to analysis of health and education services to determine the extent to which lower-income groups are utilizing them. It involves comparing the amount of public spending on the particular service in a given area by income group—based on a breakdown of users or students by quintile or decile—averaged out across the total population of each group. The resulting average levels of spending per income group indicate the degree to which higher-income groups may be getting a significantly greater share of public spending on the service (proxy for benefits) per head.

Table 5.3. Data Collection Format for Benefit Incidence Analysis: Primary Education

Indicator	
Recurrent Expenditure (Total)	
Enrollments ('000)	
Expenditure per Student	
Expenditure per Head of Population (Total)	
Expenditure per Head of Population (Lowest Quintile)	
Expenditure per Head of Population (Highest Quintile)	
Share of Relevant Age Group in Lowest Quintile's Total Population (%)	
Share of Relevant Age Group in Highest Quintile's Total Population (%)	

⁵⁵ Other tools that can be used in the PSA include distribution analysis and poverty impact analysis. Guidelines for these can be found in ADB. 2001. *Handbook for Integrating Poverty Impact Assessment in the Economic Analysis of Projects*. Manila. Experience to date with distribution and poverty impact analysis is mixed, due to considerable differences in the way the methodology has been interpreted and applied. For a review of ADB experience in applying distribution and poverty impact analysis, see Franklin D. De Guzman. 2005. *Assessing the Use of Project Distribution and Poverty Impact Analysis at the Asian Development Bank*. ERD Technical Series Note No.13. Manila.

E. Poverty Analysis for Program Loans⁵⁶

Policy-based loans are designed to play a catalytic role in reducing poverty by fostering an enabling institutional and policy environment that improves the efficiency within which scarce resources are used, widens access to resources, enhances the operation of markets, and improves macroeconomic balances. Such projects are expected to convey substantial benefits to both the poor and the nonpoor that are difficult to quantify with any precision, given the myriad channels through which policy and institutional reform may impact on the real economy.

ADB requires that all program loans be subjected to a specific poverty analysis during the design phase. The purpose of the poverty analysis is to analyze the likely poverty and social impact of policy reforms supported by ADB program loans, screen out adverse effects as far as possible, and ensure that in those cases where such effects are unavoidable, appropriate mitigation measures are introduced. It is particularly important that a poverty analysis for program loans is developed early in the design phase through a participatory process, and updated during the design phase as further detailed information comes to hand. This should help in formulating regulatory frameworks that contribute to poverty reduction, in ensuring that accessible and affordable services for the poor and specific at-risk groups are provided, and, if necessary, in facilitating the design of mitigation plans to compensate possible adverse impacts of the policy loan.

There are three main steps in analyzing the poverty implications of a poverty-based loan. The first is to assess the nature and magnitude of impact on the poor of all reforms. The second is to clarify the means and the probable strength of transmission of the direct and indirect means by which these policy and institutional effects are likely to impact on the poor, and the key underlying assumptions that are made in reaching such judgments. This involves an analysis of the impact of policy and institutional change in terms of the five main transmission channels through which the poor are likely affected, including (i) the demand for unskilled labor; (ii) net public transfers to the poor; (iii) the prices of goods bought and sold by the poor; (iv) access to assets; and (v) access to public goods and services. The third step involves identifying measures to mitigate possible adverse effects of program-supported policy and institutional change on the poor and vulnerable.

The likely economic and institutional outcomes and impacts of an ADB program are generally based on the economic and institutional feasibility that underpins the program. This involves a description of what is expected to happen in the economy, the sector and/or the project domain, if the project is implemented. In some cases this is based on a formal model that relates policy and institutional change to socioeconomic outcomes. In most instances, it is based on findings drawn from experiences in comparator countries.

Both qualitative and quantitative sources of information can be collected to distribute these expected outcomes to the poor and nonpoor groups.⁵⁷ Information on how the poor may benefit from economy-wide, sector-wide, or project-domain specific information can be collected from:

- existing secondary sources of information on participation by the poor in the economy, in the labor market, in terms of their access to services, and with reference to specific markets affected by project interventions;

⁵⁶ See Staff Instructions of 28 March 1995: *Assessment of the Impact of Program Loans on Poverty*.

⁵⁷ The forthcoming *Handbook on Social Analysis* provides guidance on analyzing and addressing social impacts of program loans.

- consensus estimates from experts knowledgeable about the participation of various socioeconomic groups in the markets that are most likely to be effected by ADB project reforms; and
- primary interview techniques, such as PRA (participatory rapid appraisals), focus groups and beneficiary self-assessment, to reveal the probable extent and range of the distribution of expected project benefits to the poor and nonpoor groups.

The poverty impact of a program loan should be summarized in a table (Table 5.4) showing, for each major policy condition with significant impact on the poor. This should include:

- the impact of specific policies on the poor for each channel and category of effects; distinguished by those effects that are likely to arise in the short-run and medium-run;
- an assessment of whether the net effect on the poor will be positive or negative, large or small;
- a clear identification of the major groups that are likely to be affected, and measures that are designed to mitigate adverse impacts or enhance positive impacts;
- a statement of the key assumptions underlying the table; and
- a brief narrative explaining and justifying the findings.

Table 5.4: Poverty Impact Assessment Matrix

Reform Summary						
Channel of Effect		Effect on the poor/other stakeholders			Major Groups Affected	Mitigation or Enhancement Measures
General	Specific	Direct Short-run	Indirect Short-run	Indirect medium-run		
Labor Market	Formal Informal					
Prices	- Output consumer - Output supplier - Input consumer - Input supplier - Other					
Access for poor	- Non-marketed - Public Services					
Access to Assets	Physical Financial Human Social Natural					
Transfers	Private transfer Public transfer					
Net impact						
Information Basis or Crucial Assumptions						
Brief Narrative						

Source: Richard Bolt, Manabu Fujimura, Franklin De Guzman, and John Weiss. 2002. *Toward Better Practice in Policy-based Lending*. Part 2. ADB Economics and Research Department.

An example of an assessment of the linkages between policy reforms supported under a program loan to the education sector of Cambodia is provided in Box 5.4. The example illustrates the manner in which a poverty impact assessment matrix can be used to define the linkages between the program's objectives and the manner in which public policy change is expected to contribute to sector development and poverty reduction.

Ensuring that the poverty impacts of policy reforms supported under program loans are adequately assessed and that suitable mitigating measures are devised is an essential component of sound program lending. Absent such analysis, there is a risk that the costs of policy reform will be disproportionately borne by those least able to anticipate or mitigate these risks. Moreover, without such measures, the social consensus needed to ensure that policy reform moves ahead could be compromised. A good example of a program loan that included an analysis of measures to mitigate the adverse effects of policy reform on the poor was Indonesia's 2005 Development Policy Support Program (DPSP). The Program included assistance to the Government aimed at mitigating the effects of a reduction in fuel subsidies. In 2005, the Government of Indonesia cumulatively raised fuel prices by 165% to reduce fuel subsidies from \$13 billion to \$9 billion. Under the DPSP, measures aimed at mitigating the impact of a fuel subsidy reduction on the poor included the reorientation of fiscal savings toward higher social spending, increased block and special purpose grant transfers to the regions, and a compensation program for fuel subsidy reduction. The latter included: (i) unconditional cash transfers to 15.5 million poor households, amounting to \$10 per household/month; (ii) additional funding to schools (Rp6.3 trillion in 2005) to support the rehabilitation of dilapidated school buildings and to augment recurrent expenditures; (iii) basic health care and health insurance (Rp3.9 trillion in 2005) to finance upgrading of health care facilities and insurance schemes for the poor; (iv) and upgrading of village infrastructure (Rp3.3 trillion in 2005) to support priority infrastructure development in 12,800 villages in 427 districts. Complementary technical assistance support was also provided by ADB to assist the Government improve the targeting of its cash transfer program.

F. The Poverty Analysis Section of the Summary Poverty Reduction and Social Strategy (SPRSS)

All reports and recommendations of the President must include the Summary Poverty Reduction and Social Strategy (SPRSS) as a core appendix, including summaries of mitigation or any other relevant action plans. In the case of projects that are targeted to households, like TI-H, the SPRSS will summarize the detailed poverty analysis undertaken for the project. In this case, the SPRSS will demonstrate the steps taken to address the issues identified in the original IPSA report, and will summarize the poverty reduction measures or plans included in the project design. Wherever possible, the distribution of project benefits will be described in the main SPRSS text.

In the case of all other projects, as there will not be a detailed poverty analysis conducted, the poverty analysis section of the SPRSS will be very short and contain only a brief explanation of how the project supports the CPS and thereby contributes to poverty reduction.⁵⁸ The main focus of the SPRSS in the case of general interventions and interventions that are targeted to geographic regions and to contribute to the achievement of the non-income MDGs—is to describe

⁵⁸ The forthcoming *Handbook on Social Analysis* provides further guidance on completing the social analysis sections of the SPRSS form.

Box 5.4. KINGDOM OF CAMBODIA: EDUCATION SECTOR DEVELOPMENT PROGRAM POVERTY ANALYSIS

A policy loan of \$20 million was provided to the Government of Cambodia to support a reform program for the education sector. The reform program was aimed at ensuring equitable access to education and improving the quality and efficiency of education services by adopting a comprehensive sector policy framework that included measures aimed at improving education allocations for the poor, rationalizing the service, decentralizing education services, ensuring that quality inputs would be provided on a sustainable basis, providing special support for education facilities in poor and remote areas, and institutional strengthening.

The poverty impact analysis noted that reform will benefit the poor in a number of ways. By increasing the operational budget for the schools, this will reduce the need for informal payments by the parents, a major impediment to participation in schooling by the poor. Increased provision of training materials, introduction of multigrade teaching, and management decentralization are expected to boost school quality and responsiveness. These are factors central to increasing expected returns on schooling for poor families. Policy reform also introduces a needs-based formula for allocating funding for facilities improvement, the aim of which is to substantially boost the targeting of capital investment in village schools in poor regions. Incorporating social concerns such as fertility reduction and AIDS awareness into the education curriculum is also expected to have a long-term, indirect poverty reduction effect. Planning processes will also be reformed to bolster the linkage between education availability, quality, relevance and poverty reduction.

The Education Sector Program loan was divided into four main policy reform areas: Increased Resource Allocation to Education, Increased Equitable Access to Education Services, Improved Quality and Efficiency of Education, and Enhanced Management and De-concentration of Education Services. In each, the report and recommendation of the President (RRP) provided a logical explanation as to why program improvements were relevant to the poor, likely to be captured primarily by the poor, and likely to have a long-term impact on poverty reduction. The poverty impact matrix was used to organize this information for each main reform area. Reproduced below is the matrix (from Appendix 10 of the RRP) for one of the main reform areas.

Policy Area 2: Increased Equitable Access to Education Services				
Objective	Direct Impact on the Poor	Indirect Impact on the Poor	Macro Concerns Addressed	Assumptions
Reduced cost of basic education to parents by prohibiting start-of-year contributions	Enhanced likelihood of enrolling poor students, especially girls and ethnic minorities	Increased representation of the poor in school; reduced dropout rates	Gender and ethnic minority equity; poverty reduced	Action by schools and dissemination of new policy to parents; Govt able to sustain additional cost; effective monitoring
Scholarship program for rural poor introduced	Improved school enrollment among females, minorities and the poor	Equity within society. long-term fertility reduction, and healthier families	Gender and ethnic minority equity; poverty reduction	Transparent and fair selection system
Expanded public-private partnership in education sector	Private contribution gives govt more resources for pro-poor strategies	Improved education sector provision overall	Private sector development in the social sectors	For-profit organizations perceive value in expanding partnership in education
Increased access to education services through expanded facilities	New opportunities for children previously prevented from access to school	Improved education levels, especially among rural poor	Universalization of basic education	Deconcentrated facilities, investment strategies, improve disbursement, and implementation performance
Reformed teacher deployment policies to provide experienced, qualified, teachers in remote, rural and indigenous peoples areas	Increased opportunities for remote, poor, and indigenous children for quality service	Reduction of regional/rural disparities in social services provision	Inclusion of ethnic minorities in mainstream society, increased social equity.	Teachers will remain in service when deployed to serve in remote, rural areas.

the nature of the linkage of the particular project intervention to the CPS. Reference should also be made in the SPRSS to the justification for the classification accorded to the project.

G. Poverty Analysis for Nonlending Products and Services

ADB provides project assistance through a range of nonlending products and services, including technical assistance, knowledge products, policy dialogue, and donor coordination. The nonlending services may or may not be linked to a specific lending project. ADB's nonlending services play a critical role in capacity development and fostering improved governance. The particular manner in which nonlending services are expected to contribute to poverty reduction should be clearly specified in the CPS. While it is not necessary to provide a specific poverty analysis for each of the nonlending services, the country specific rationale for each should be provided; outcomes should be identified; and a mechanism for tracking results established. More specifically:

- the manner in which nonlending services are to contribute to poverty reduction should be clearly stated in the CPS;
- the expected outputs and outcomes of the nonlending services, including their links to ADB's country-specific support for poverty reduction, should be included in the concept papers and project documents; and
- the capacity development, governance improvement, reform support, and other results arising from nonlending assistance should be tracked in the results framework for each country.