



Introduction

ADB's adoption of poverty reduction as its overarching objective means that all its interventions must be prepared with poverty impact as the primary focus in one form or another. ADB's Poverty Reduction Strategy (October 1999) appropriately sets out the three pillars of poverty reduction: pro-poor sustainable economic growth, social development, and good governance. However, it should be recognized that existing economic theory and cross-country empirical evidence are not likely to be a satisfactory guide in terms of informing policy options for individual developing member countries (DMCs) of ADB toward maximum poverty reduction. Pro-poor growth that is favored by most international agencies including ADB can be interpreted as

an outcome from a mix of interventions, but identification of such mix is a complex undertaking in practice. A challenging operational task for ADB in the short to medium term is to find a good balance between the two intervention categories adopted: Poverty Interventions (of which Core Poverty Interventions are a subset) and the other interventions (Loan Classification System, November 2000). (This Handbook will refer to the second group simply as Other Interventions throughout.) It can be broadly considered that Poverty Interventions will be targeted projects while Other Interventions will be non-targeted projects. ADB's Poverty Reduction Strategy (paragraphs 55-56) recognizes that "it is often difficult in the case of individual countries to decide how much emphasis to place on poverty interventions and how much on growth-oriented investments. Where past performance in poverty reduction has been weak or inequality is rising, the emphasis will be on governance and social development. In countries where essential reforms have been undertaken or are under way, growth-oriented investments will reduce poverty...In each country, the mix and nature of projects will be shaped by the poverty analysis (to be carried out for each DMC)."

As an intermediate step before country-specific poverty analysis can better inform the appropriate intervention mix for poverty reduction, one could think of some country grouping with which to broadly guide ADB's country programming. For example, DMCs with demonstrated growth performance but potential or alarming pace of increasing inequality and poor record of poverty reduction might need more poverty interventions than growth-oriented projects. DMCs with relatively equitable institutional setup but weak growth performance might need more growth-oriented projects than poverty interventions. DMCs with less than mediocre record on both growth and equitable institution and governance in general, including the economies in transition, might need governance reform interventions before anything else as a prerequisite to the possibility of poverty-reducing growth process. However, truly useful information must come from country-specific studies. Some earlier country-specific poverty studies undertaken by ADB include Quibria (1993, 1994) and Pernia (1994) covering Bangladesh, India, Sri Lanka, Indonesia, Republic of Korea, Philippines, and Thailand. More knowledge at country programming level must be accumulated over time to inform the exercise of country strategy and program through economic and sector work (ESW).

This Handbook is intended as a reference material to assist ADB project preparation in light of the economic analysis under the mandate of poverty reduction. It provides workable recommendations for augmenting the current practice. In accordance with the twofold loan classification, two separate

treatments are recommended. The main part of the Handbook (Chapters 3-5) is devoted to the treatment of Poverty Intervention projects. It can be considered as a detailed application of the ADB *Guidelines for the Economic Analysis of Projects* (reproduced in Appendix 1). Treatment of Other Intervention projects is discussed in Chapter 2. It should be noted that due to the specific focus on the poverty impact of projects, this Handbook does not cover directly other equally important aspects of project appraisal such as financial sustainability, which needs continued attention. For general guidance on overall project analysis, readers are referred to the *Guidelines for the Economic Analysis of Projects* (ADB 1997).