2 Pro-Poor Context Check for Other Intervention Projects

Various policy and institutional contexts of project investments must be informed by country- and sector-level knowledge based on macroeconomic performance record, public expenditure review, governance review, etc. In light of ADB's poverty reduction objective, the analyst should first check whether the project-induced growth effects will lead to poverty reduction, e.g., with at least one-to-one relationship. If such environment can be confirmed, a reasonable strategy would be to look for investments with maximum growth impact, provided that care is taken to ensure obvious negative externalities will not arise. A presumed pro-poor rationale for Other Intervention (primarily nontargeted) projects must be that their policy and institutional contexts are such that growth is the most effective channel for poverty reduction. If, for example, social service delivery (e.g., primary education, primary health expenditure) and transfer mechanisms (social safety net) in a project's target area(s) is demonstrated to be pro-poor, there is less need to design the project in a pro-poor way especially where such design tends to narrow the room for growth impact, which in turn narrow the scope for government social expenditure targeted for the poor. Under such environment, selection of projects with maximum net present value (NPV) with a 12 percent cutoff economic internal rate of return (EIRR) can continue to be the primary economic criteria.

In determining whether a project in question fits in such environment, the analyst may proceed with a two-tier context check. The first-tier check will be at economy-wide level, and the second-tier check will be at geographically disaggregated local level. Much of the information required in the first-tier check should be covered in country-level studies at CSP level. Such information can be broadly categorized into the following:

Macroeconomic context: It is generally accepted that inflation has an adverse impact on the poor involved in market economy as it works as a regressive tax due to loss in what little purchasing power they have. Monetary authorities cannot necessarily control the size and nature of the impact of macroeconomic policy changes on the poor. Reconciliation of short-run and long-run effects on the poor will not be straightforward. It may be best to assign some macro policies to a limited policy goal such as controlled inflation and fiscal stabilization. The analyst should at least check whether macroeconomic management is broadly sound in this context.

Public expenditure and tax incidence on the poor: The public spending incidence is often used as a shortcut to welfare measurement of public services. While this is certainly an approximation of true benefit incidence, where data or resources are not available for full-fledged behavioral analysis, conventional benefit incidence results would be informative in judging the first-cut redistributive environment of public spending. Methodological problems with this approach pointed out, for example, in van de Walle (1996), may not be a serious concern if its use is limited to checking a broad public spending tendency instead of using it to guide actual public spending decisions. Tax incidence analysis is the other side of the public expenditure and can be applied in combination with public spending analysis. [See, for example, the public spending chapter in the World Bank's *Poverty Reduction Strategy Sourcebook* (World Bank 2000d.)]

Institutional/governance context: The way rules of the game are written and effectively enforced determines the overall parameters within which economic activities bring about growth and equity outcomes. While many agencies have developed governance indicators and checklists, they could be broadly categorized into two groups in terms of poverty impact: poverty-neutral indicators and proactive indicators. The former group could include accountable and contestable government, credibility of budget process, efficacy of legal institutions, factor market efficiency, anticorruption legal framework and enforcement, etc. The latter group could include social stratification/class system, voice of the poor, asset distribution, credibility of social and environmental protection; social safety net system, etc.

In line with the stipulation in the *Advisory Notes on Poverty Analysis* (SPD April 2000), it is desirable that as much as possible of the following information be covered in country poverty analysis:

(i) macroeconomic stability – inflation rate and its trend; exchange rate depreciation trend and its impact on rural and urban poor;
(ii) asset distribution (especially landownership profile), preferably with geographical breakdown, and its implication on the poor's capability to participate in market activities;
(iii) labor market condition: market competitiveness; location and density of labor-intensive industries and small and medium interprises, etc., and their implication for employment of the poor;
(iv) public spending and tax incidence, preferably with geographical breakdown (ideally covered by *public expenditure review* or *social expenditure review*);
(v) government antipoverty programs: magnitude, location, sectors, and types of antipoverty programs;
(vi) social safety net availability for the poor, preferably with geographical breakdown (e.g., World Bank's *social sector reviews*, International Labour Organisation’s *social protection expenditure reviews*);
(vii) effectiveness of the regulatory regimes and implication on the poor: e.g., existence and enforcement status of anticorruption laws (ideally covered in country *governance review*);
(viii) indicators of risk-coping capacity of the poor, preferably with geographical breakdown: social indicators such as education levels and health status;

(ix) support of the civil society and private sector: existence of nongovernment and community-based organizations etc., that represent and promote the interests of the poor, with geographical breakdown; and

(x) ongoing and planned external assistance: existence of targeted poverty reduction initiatives with geographical breakdown.

In the second-tier context check, where information is inadequate at disaggregate levels, the project analyst is responsible for collecting and complementing the information specific to the local situation and examining whether the project environment is conducive to the poor's access to the services produced by the project.

It is expected that these information will be increasingly available through ESW. In the meantime, the project analyst should rely on as much existing evidence as meaningful to make a sensible judgement on the policy and institutional context of the project at hand. Existing ADB documents for program loans or sector development program loans with poverty impact assessment (PIA) matrixes may include some clues to inform the project environment. Where a series of ADB projects have been implemented within a sector or subsector, evaluation reports may yield useful information on governance performance over time and help examine its implication on the poor.

A rigorous economic calculation of distribution and poverty impact analysis, which follows in the next section, need not be essential for Other Intervention projects. However, project economists and consultants are encouraged to undertake such analyses wherever possible and meaningful for many reasons (see discussion in Chapter 5). For benchmarks for good project preparation with a poverty perspective, see Appendix 2.