

ADB POLICIES AND PROCEDURES

Issue	Document	Summary
Poverty Reduction	Poverty Reduction Strategy (1999)	As the overarching goal of ADB, the poverty reduction strategy requires that all projects contribute directly or indirectly to poverty reduction.
Social Analysis	OM 47: Incorporation of Social Dimensions in Bank Operations (1993) Handbook for Incorporation of Social Dimensions in Projects (1994)	Provide guidance to (i) promote proactive social development through ADB interventions, and (ii) mitigate possible adverse social effects of ADB interventions.
Poverty Analysis in Policy-Based Lending	Staff Instruction (1995) – Assessment of the Impact of Program Loans on Poverty	Requires that all program loans be subjected to specific analysis during the design phase to identify potential negative effects and develop mitigation measures to compensate for possible transitional social costs of adjustment.
Involuntary Resettlement	Involuntary Resettlement Policy (1995) Resettlement Plan Handbook on Resettlement: A Guide to Good Practice (1998)	Requires the avoidance of project-related displacement of people wherever feasible. Must be prepared in instances where loss of assets, resources, homes, or livelihoods is unavoidable, to ensure that livelihood and quality of life are restored at least to prior standards. Sets out requirements for preparing, implementing, and monitoring a resettlement plan.
Gender	Gender and Development Policy (1998) Gender Checklists in health, education, water supply and sanitation, agriculture, urban development, and forestry (forthcoming)	Recognizes that all projects have a gender impact and do not automatically benefit men and women equally. Gender analysis seeks to ensure that projects provide equal opportunities for men and women to benefit. Each checklist provides sector-specific guidelines to assist in effectively addressing gender and development issues in project preparation.
Indigenous Peoples	Policy on Indigenous Peoples (1998) Indigenous Peoples' Plan	Recognizes that some communities are vulnerable simply because their social or cultural identity is distinct from that of the dominant or mainstream society. Must be prepared for all projects affecting such communities, to take account of their distinct needs and aspirations.

Issue	Document	Summary
Social Protection	Social Protection Strategy (2001)	<p>Provides criteria to design social protection interventions as stand-alone projects or components of nonsocial loans in the area of insurance, social assistance, micro and area-based schemes, and child protection.</p> <p>As safeguard, requires that vulnerable groups are not negatively affected by an ADB intervention, and if so, must be adequately compensated and mitigation measures put in place.</p> <p>Requires that ADB projects are designed and implemented in accordance with local and international labor standards.</p>
Participation	<p>Framework for Mainstreaming Participatory Practices in Bank Operations (2001) (forthcoming)</p> <p>Staff Instruction</p>	Ensure that loan designs reflect the actual needs of the intended clientele and enhance ownership and sustainability.
Nongovernment Organizations (NGOs)	Bank Policy on NGOs (1998)	Recognizes that NGOs often can contribute valuable advice on the design of projects, assist in ensuring active participation of intended clientele, and participate directly in implementation. The policy encourages involvement of appropriate NGOs and community-based organizations at all stages of the design cycle.
Economic Analysis	<p>Guidelines for the Economic Analysis of Projects (1997)</p> <p>Draft Handbook for Integrating Poverty Impact in Economic Analysis of Projects</p>	Sets out the methodology used to calculate project viability, including economic internal rate of return (EIRR), and expected poverty impact. The latter provides for estimation of the <i>benefit impact analysis</i> between consumers, workers, government, and other groups and the <i>poverty impact ratio</i> , which measures the distribution of project benefits between the poor and the nonpoor based on calculated EIRR and financial internal rate of return.
Loan Classification System	Staff Instruction (2000)	In keeping with ADB's poverty reduction strategy and commitment to dedicate not less than 40 percent, by volume, of public sector lending to poverty interventions, this staff instruction requires that all loans be classified in terms of their contribution to poverty reduction.
Governance	Promoting Good Governance: ADB's Medium-Term Agenda and Action Plan (2000)	Requires that a <i>governance assessment</i> inform the level and sectoral composition of ADB assistance. This assessment gauges the implications of any governance weaknesses in achieving the project's social development and poverty reduction objectives.

LOAN CLASSIFICATION SYSTEM CONFORMING TO THE POVERTY REDUCTION STRATEGY

I. INTRODUCTION

1. ADB's 1992 project classification system helped Management monitor how many projects, and how much resources, were allocated to the five objectives set out in the [Medium-Term Strategic Frameworks](#) (MTSFs). With poverty reduction becoming the overarching goal of ADB, and the new loan typology and lending target set out in the [Poverty Reduction Strategy](#), the classification system needed revision. These Staff Instructions, approved on 24 November 2000, set out to do so.

II. BACKGROUND AND PURPOSE

2. The Poverty Reduction Strategy indicates that all public sector loans will aim to reduce poverty, directly or indirectly. The Strategy also specifies a target: from 2001 onwards, not less than 40 percent¹ of lending volume should be directed to poverty, including core poverty, interventions. All public sector interventions—whether poverty interventions or otherwise—will also support important thematic priorities of ADB. In this way, a balanced public sector lending mix should result.

3. The Loan Classification System is a simple and practical management tool. It is intended to help ADB monitor performance against the poverty target for public sector lending. It will also enable ADB to track lending in support of thematic priorities.

4. The classification system is not a method for selecting loans for inclusion in country portfolios; that choice should be based on the outcome of country-specific poverty analyses and subsequent country strategy work. During the preparation of the country strategy and program, country teams will assess the desirable mix of poverty and other interventions in the country concerned in the context of the latter's strategic priorities for development in general and poverty reduction in particular. ADB's approach will also take into account the macroeconomic and policy framework to assess its consistency with the country's strategic priorities.

5. Poverty considerations should be an integral part of loan design. It is therefore expected that all loan missions will collect and use data and information necessary to ensure that poverty reduction is an integral part of project/program design. This may be difficult to achieve in the case of loans in the current pipeline, as they have been designed prior to the approval of the Poverty Reduction Strategy. However, poverty considerations should progressively be integrated into loan design.

6. The classification system covers both project and program loans.

III. GENERAL PRINCIPLES

7. All ADB public sector loans are expected to contribute to the overarching objective of poverty reduction through the three pillars of pro-poor and sustainable economic growth; social development; and good governance. To establish the contribution of ADB's operations to the overarching objective, the justification for each loan should clearly explain how the intervention helps reduce poverty.

8. ADB's poverty reduction efforts should also be economically viable. To ensure this, all loans should continue to meet the efficiency criterion of an EIRR of at least 12 percent or a criterion of cost effectiveness, depending on the nature of the loan.

9. The difference between poverty interventions and other ADB projects and programs lies in the manner in which they contribute to poverty reduction. Whereas poverty interventions would have clear poverty reduction impacts, in the case of other ADB interventions, the impacts on poverty—though real—may not be immediately obvious. This difference—one of degree rather than of kind—provides the basis

¹ Based on the assumption that adequate concessional resources are available.

for the poverty classification. Only those that also satisfy a special requirement (i.e., benefit the poor disproportionately) will be classified as poverty interventions.

10. The essential requirement for poverty interventions would be a thorough assessment of benefits to show that these accrue mainly to the poor. Indirect impacts on poverty can also be powerful and benefit large numbers of poor people. These indirect effects should also be assessed to clarify the impacts of ADB projects on the poor.

11. Given its overarching objective, it is important that ADB capture and highlight the full extent of its contributions to poverty reduction. Depending on the type of project or program, these can be at three levels: (i) macroeconomic, (ii) sector, and (iii) project. At the macroeconomic level, investments aimed at long-term growth raise general standards of living, including those of the poor. Economic sector reforms, such as price adjustments in factor and product markets, may directly or indirectly benefit the poor. Social sector reforms may also directly or indirectly benefit the poor. At the project level, projects can be designed to specifically target the immediate interests of the poor and the poorest. Accordingly, the rationale and justification for any ADB public sector loan should cover the expected impacts on poverty at each applicable level.

12. The Loan Classification System follows the guidance contained in the Poverty Reduction Strategy itself. Accordingly, a simple, binary typology is envisaged that distinguishes between poverty (including core poverty) interventions and others. In addition, a more comprehensive classification will be employed to track ADB lending against thematic priorities.

IV. CLASSIFICATION PRINCIPLES

13. The goal of poverty reduction is achieved by means of the three pillars of pro-poor and sustainable economic growth, social development, and good governance. Individual ADB operations may work through one or more of these pillars. The latter also subsume a range of thematic priorities, e.g., human development, improving the status of women, and protecting the environment (see footnote 4).

14. A loan that will benefit the poor disproportionately should be classified as a poverty intervention (if it meets the criteria set out in this classification system). Thus, an infrastructure project that will have such an impact should be classified as poverty intervention. Equally, a social sector project should not be classified as poverty intervention if it does not meet the applicable criteria.

15. The classification system is therefore not related to individual sector(s). Loans to any sector can fall under the category of poverty interventions as long as relevant criteria are met.²

16. Poverty reduction, being ADB's overarching goal, takes precedence over all other development objectives. Accordingly, the first classification is with reference to poverty. Yet other thematic priorities (discussed in the Poverty Reduction Strategy) remain important and it is necessary to observe how, and to what extent, these are addressed through ADB's portfolio. Hence, as stated (para. 11), this will be tracked through a separate classification.

17. It is important to note that classification of projects by poverty and by thematic priorities is not mutually exclusive. Thus, a poverty intervention could, in the thematic classification, be a human development project or a good governance project, etc.

A. Poverty Classification

18. Loans processed for approval in 2001 onwards,³ which satisfy the criteria set out below, must be classified as poverty, including core poverty, interventions.

² Thus, an appropriate intervention in an energy-surplus, but poor developing member country of ADB could be a capital-intensive, export-oriented power project, with no apparent connection to the poor. It may nevertheless warrant classification as a poverty intervention if its macroeconomic impact is designed to lead to significant improvements in the quality of life of the poor (para. 25).

19. The criteria used for this poverty classification for loans are (i) the proportion of poor among the beneficiaries and (ii) impact or benefit analysis. Accordingly, poverty interventions can also be regarded as beneficiary-specific interventions. An analysis of the expected impacts is required to demonstrate how the poor would benefit from the loan.

20. In the case of other, beneficiary-nonspecific interventions also, loan documents should explain how the poor benefit. Unless the poor benefit from all ADB lending in one way or another, it cannot be claimed that ADB is achieving its overarching goal.

21. Appendix 1.2.1 describes the poverty classification in greater detail.

B. Thematic Classification

22. All ADB projects and programs, whether poverty interventions or otherwise, will also focus on one or other of ADB's thematic priorities. These are: (i) economic growth, (ii) human development, (iii) gender and development, (iv) good governance, (v) environmental protection, (vi) private sector development, and (vii) regional cooperation. These categories are directly related to the three pillars.⁴ Classifying loans by these categories will track ADB's record in promoting these thematic priorities. It is recognized that interventions in each category could also promote one or more of the other thematic priorities. As a rule, however, only one category will be permissible for purposes of this classification. In exceptional cases, where more than one thematic priority is strongly present in the project/program design, two categories will be permitted for classification purposes.

23. Appendix 1.2.2 provides details on the categories for classification by thematic priorities.

V. PROCESS AND RESPONSIBILITIES

24. Loans are preclassified at the programming stage. This preclassification is not irreversible, and should be verified during loan processing. However, loans that have been pre-classified as poverty interventions will require commensurate efforts to ensure that they are designed to have the best possible poverty impacts. Data and information needed for quantitative and qualitative analyses to justify a chosen loan classification should be collected at an early stage during the feasibility study and form part of the social and poverty impact assessment of projects/programs.⁵

25. The Regional Departments concerned will jointly recommend the classification of loans. In so doing, they should follow the poverty classification decision tree in Appendix 1.2.1.

VI. PRESENTATION IN LOAN DOCUMENTS

26. At present, classification of a loan in terms of ADB's strategic development objectives is indicated in the report and recommendation of the president (RRP). This is done in the loan and project summary section of the RRP, next to the heading "classification." Henceforth, the entry against this heading will specify the poverty and thematic classifications, for all poverty and core poverty interventions. For other (beneficiary-nonspecific) interventions, only the thematic classification will be shown.

27. Two examples are provided below as guides. The first relates to poverty interventions, and the second to other interventions.

³ Loans being processed for approval in 2000 should follow the existing classification system.

⁴ In terms of the three pillars of the Poverty Reduction Strategy, human development and improving the status of women are subcategories of social development; good governance is itself one of the pillars; protecting the environment and private sector development relate to pro-poor, sustainable economic growth. Regional cooperation cuts across the three pillars.

⁵ The Handbook on *Incorporation of Social Dimensions in Projects* and the *Guidelines for Economic Analysis of Projects* are being updated and expanded substantially to combine social and poverty dimensions. They will, among other things, provide applied tools, specify data requirements, and suggest methods for data collection.

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|------|-----------------------|--|
| (i) | Classification | Poverty Intervention (or Core Poverty Intervention)
Thematic: Human Development |
| (ii) | Classification | Thematic: Economic Growth |

VII. METHODS

28. Methods for anticipating the effects and impacts of loans on the poor include quantitative and qualitative approaches, both of which can be used to justify loan classification.

29. When using qualitative methods, the link between the intervention (policy reform, investments, etc.) and its impact on poverty reduction must be illustrated clearly. For instance, a policy reform program may be designed to ensure improved public expenditure management, freeing up resources to be spent in poor areas or on services most relevant to the poor. The loan design must include safeguards (policy conditions and monitoring mechanisms) to ensure a shift in public expenditure patterns and identify areas on which resources will be spent (e.g., shifting expenditures from districts with relatively low incidence of poverty to those with the highest incidence of poverty in the country).

30. Benefits may accrue as immediate effects (services and goods directly produced by the loan) or as impacts, i.e., changes that the beneficiaries should experience as a result of loan effects. Table 1 provides examples to illustrate the distinction between immediate effects and impacts. These may be direct and/or indirect, although, particularly in case of the latter, a clear connection must be established between the benefits and how they will reach the poor. Impacts mentioned in the table are examples—for actual loans, they need to correspond to the loan objectives and, thus, have to be determined on a loan-by-loan basis.

Table 1: Loan Examples

Loan	Effect	Impact
Water Supply Loan	e.g., Water (quantity and quality)	Reduced time to fetch water; reduced incidence of waterborne diseases.
Health Loan	e.g., Vaccinations	Reduced incidence of disease against which vaccinations were given.
Road Loan	e.g., Transportation Services	Reduced travel time; reduced VOCs; increased access to markets.
Microfinance Loan	Microcredit, deposit-taking	Increased economic activities; improvements in assets and/or housing; etc.
Sector Reform Loan	e.g., Increased Efficiency and/or Reduced Corruption	Reduced cost to access and of services.

VOCs = vehicle operating costs

31. The quantitative analysis of benefits and poverty impacts should follow the relevant guidelines for social and economic analysis.⁶ Qualitative analysis may use tools such as problem tree analyses and logical framework. The analysis of benefits will also have to consider how different groups can put

⁶ These currently exist as Appendixes 25 and 26 of the [Guidelines for Economic Analysis](#) and, as stated, are being updated by EDRC to give clearer guidance on application of specific decision criteria (e.g. EIRR and analysis of benefits).

benefits to work for them. Furthermore, macroeconomic, sector level and project level policies and institutions that could adversely impact flow of project benefits to the poor should also be assessed and addressed.

32. Some methods⁷ are being further developed and will be tested during the forthcoming months. Until the methodologies are in place, the headcount index is likely to be the more reliable tool, but should be complemented by benefit analysis whenever possible.

33. The classification system does not introduce a weighting system between quantitative and qualitative methods used for justifying loan classification. The Regional Departments, responsible for classifying loans, shall exercise sound judgement in weighing the arguments brought forward in support of the suggested classification.

⁷ These methods will include quantitative and qualitative tools. The benefit analysis and poverty impact ratio calculations are being reviewed to improve application and specify data collection, assessment requirements, and resource implications. Data requirements for qualitative analysis are also being reviewed.

POVERTY CLASSIFICATION

A. Poverty (beneficiary-specific) Interventions

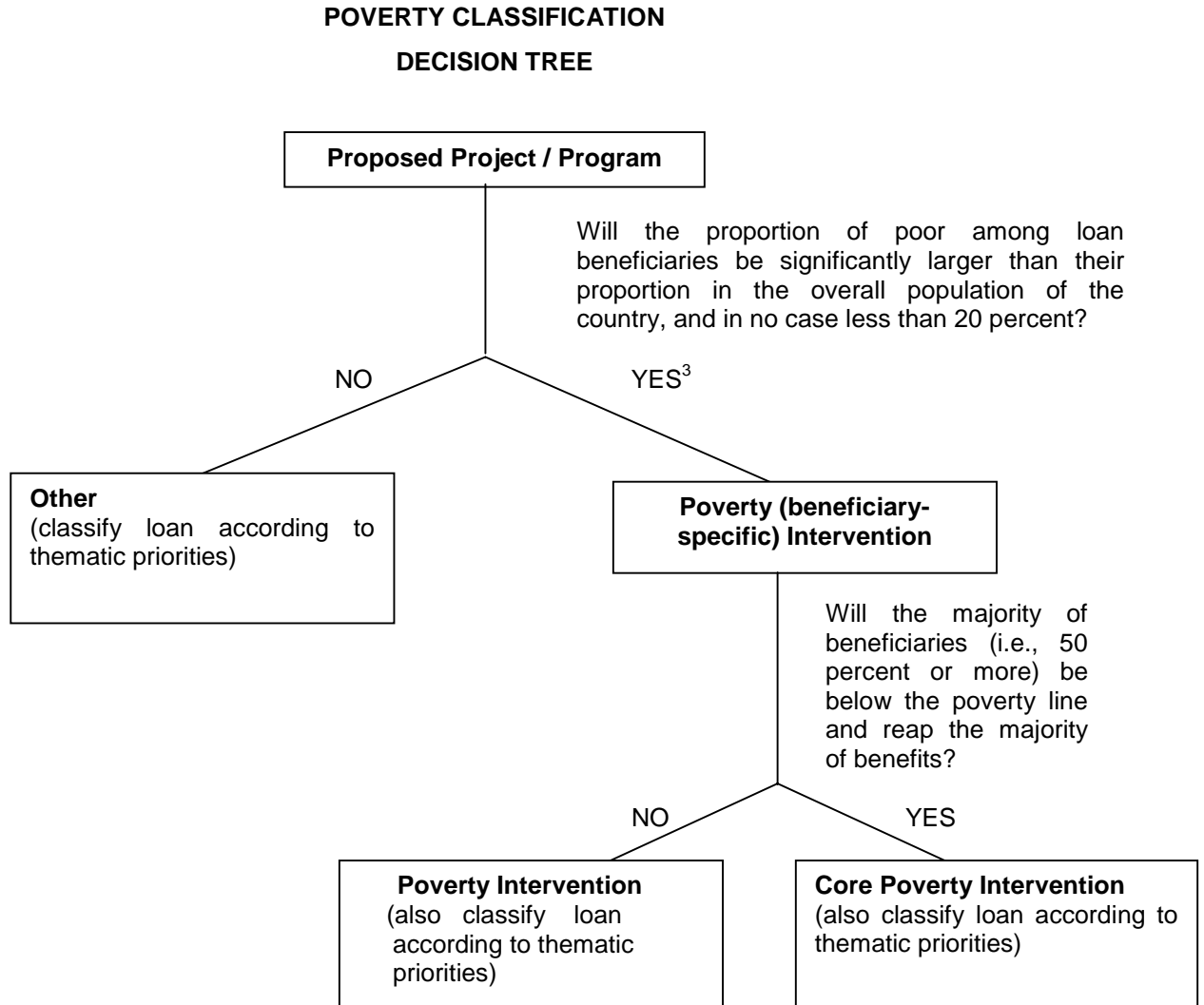
1. Poverty classification involves identifying Asian Development Bank (ADB) projects and programs that can be characterized as poverty interventions, including a subcategory of core poverty interventions.
2. The classification is based on identified beneficiaries (headcount index), the flow of benefits to poor and nonpoor, and the impact expected therefrom. In classifying loans, the proportion of beneficiaries and of benefits will be the primary criteria, while the analysis of anticipated impacts should support the chosen classification.
3. The [Poverty Reduction Strategy](#) recognizes poverty as a multidimensional issue. This broad definition is reflected in the Loan Classification System in that several measures can be used to determine whether beneficiaries are poor. These can include poverty lines (reflecting income poverty, but also measures of survival/food poverty), human poverty index, and indicators reflecting other measures of poverty that are in line with the International Development Goals or reflect quality-of-life measures. If noneconomic indicators are used as the basis for determining the level of poverty of beneficiary groups, there should be some corroboration through information on the economic status of these groups. This is because habits, traditions, or belief systems could influence performance against such indicators, not just the ability or inability to afford a better performance.¹
4. Poverty interventions are designed to benefit the poor disproportionately. These interventions may address one or several of the following needs of the poor:
 - ✓ Well-being (food security and nutrition, shelter, basic health, social security, immediate assistance in emergency situations);
 - ✓ Economic opportunity (access to productive resources, employment, economic infrastructure, markets);
 - ✓ Knowledge (training, skills, information, technology); and
 - ✓ Rights (empowerment, participation, justice in terms of legal protection and equal treatment under the law, etc., and social protection) or a combination of several of these needs.
5. For poverty interventions, the proportion of poor among loan beneficiaries will be significantly larger than their proportion in the overall population of the country,² and in no case less than 20 percent. An exception (to the requirement that the proportion of poor beneficiaries should be higher than the general incidence of poverty in the country) can be made for countries with an exceptionally high incidence of poverty (above 50 percent).
6. Once a loan is classified as poverty intervention, it might fall into the subcategory of core poverty interventions, if the majority of beneficiaries (i.e., 50 percent or more) are below the poverty line and reap the majority of benefits. Typically, these beneficiaries would face severe multiple deprivations in one or several of the above categories.

¹ For instance, low school enrollment of girls might be because parents cannot afford school fees, uniforms, or the foregone income that a girl's absence from home means. Or her absence might be dictated by cultural norms, regardless of the financial capacity of her parents. In the latter case, low school enrollment of girls would not necessarily signify poverty status.

² For this purpose, agreement should be reached with each developing member country (DMC) on how incidence of poverty will be estimated, i.e., what poverty line to use (e.g., national poverty line, dollar-a-day), to be specified in the poverty partnership agreement. Once established, the agreed poverty line will be used to classify all loans in the DMC concerned. Where necessary, separate poverty lines can be agreed for rural and urban poverty.

B. Other

7. Loans falling outside the category of poverty (beneficiary-specific) interventions should also have real impacts on poverty. These benefits need to be demonstrated by explaining how economic growth will generate spin-offs that are relevant to and inclusive of the poor. Such an explanation should provide logical and well-founded arguments that illustrate how income-generating or other effects of the loan will reach the poor. It will be useful if the explanation includes a benefit analysis.



³ In cases where the loan beneficiaries are not readily quantifiable, but where qualitative assessment clearly indicates that a significant proportion of the project benefits go to the poor, such a loan may be classified as poverty intervention.

THEMATIC CLASSIFICATION CATEGORIES AND CRITERIA

A. Economic Growth

1. A loan is classified in this category if its main objective is to increase the output of one or more good or service measured in economic and financial terms. The incremental benefits of projects in this category will raise overall economic welfare and not necessarily target a specific social group. Investments in physical infrastructure and the financial sector not targeted to benefit a specific group would qualify for inclusion in this category. Assistance to support macroeconomic and sector policies that encourage sectoral and overall economic growth would also qualify for inclusion in this category. The analysis of economic returns should be augmented by an assessment of broader growth impacts and contribution to poverty reduction, whether direct or indirect.

B. Human Development

2. A loan is classified in this category if an objective is to increase the value of human capital and quality of life through investment in one or more of

- ✓ education
- ✓ health, including reproductive health
- ✓ food security and nutrition
- ✓ water Supply and Sanitation
- ✓ improvements in working conditions
- ✓ housing
- ✓ other basic human needs
- ✓ social protection, or
- ✓ one or more components for human development account for at least 20 percent of total loan costs.

C. Gender and Development

3. A loan is classified in this category if an objective is to directly benefit women through improved access to income/employment opportunities or human development services mentioned above, equality of rights to employment and equal wages and property ownership, fair treatment under the law, child support and maternity leave through improved social security, etc., and either

- ✓ at least one third of the beneficiaries specifically targeted by the loan are women, or
- ✓ one or more components designed specifically to benefit women account for at least 20 percent of total loan cost.

D. Good Governance

4. A loan is classified in this category if one or more of the main objectives are to:
- ✓ improve public expenditure management at national and/or subnational levels;
 - ✓ promote accountable, efficient, and responsive public administration at national and/or subnational levels, including the reform of administrative procedures;
 - ✓ strengthen or reform the legal system;
 - ✓ strengthen public accountability institutions and fight of corruption;
 - ✓ increase government accountability and responsiveness through decentralization, local empowerment, or strengthening of civil society, and through improved information systems and transparency;
 - ✓ improve corporate governance; or
 - ✓ improve regulatory frameworks, particularly for public utilities, banking, and capital markets.

E. Environmental Protection

5. A loan is classified in this category if an objective is to promote sound management of natural resources and the environment (including land, water, and air) through one or more of the following
- ✓ protecting or improving of the local, regional, and/or global environment;
 - ✓ conserving or increasing the net stock of natural resources (excluding minerals);
 - ✓ strengthening environmental policies and institutions, and promoting environmental education; and if
 - ✓ one or more components for sound management of natural resources and/or the environment account for at least 20 percent of total loan cost.
6. This category excludes the mitigation of incremental adverse effects since this is mandatory for all ADB-financed loans. All loan components should have acceptable residual impacts on the environment.

F. Private Sector Development

7. A public sector loan is classified in this category if an explicit objective is any of the following.
- ✓ Assist in creating enabling conditions for expanding of the role of the private sector in economic growth. This includes creating conducive macroeconomic, legal, regulatory, trade, market, financial, and social protection environments as well as the infrastructure to spur entrepreneurial development and foreign and domestic private investment.
 - ✓ Generate, through public sector operations, specific opportunities for private business participation, particularly for the domestic private sector. This includes designing public sector loans with time-bound plans for private sector participation such as through contracting-out; privatization programs; and build-operate-transfer-type infrastructure loans that can be competitively bid to the private sector.
 - ✓ Be the basis or model for other types of private-public partnerships.

G. Regional Cooperation

8. A loan is classified in this category if it is

- ✓ regional or subregional loan involving separate loans to two or more developing member countries on the same loan, or
- ✓ A national loan with demonstrable regional impact.