

Handbook on Poverty and Social Analysis

Section I

Overview of Poverty and Social Analysis in ADB Operations: Issues in Theory and Practice

1.1 INTRODUCTION

A. Purpose of the Handbook

1. The purpose of this handbook is to provide an integrated set of guidelines to assist professionals involved in the programming, preparing or implementing activities financed by the Asian Development Bank (ADB), in its efforts to address effectively the many elements of poverty reduction and social development.

2. The handbook provides project team leaders, staff, consultants and national executing and implementing agencies in partner governments with analytical approaches to assist in understanding the complex realities underlying poverty and social exclusion. It highlights opportunities to introduce specific design measures to enhance the poverty reduction and social development impact of ADB projects and reduce social risks throughout the project cycle.

3. This handbook does not introduce any new or additional policy or procedural processing requirements. Rather, its intent is to provide a road map to the range of specific ADB policies, strategies, manuals, and guidelines that may be relevant to draw upon when undertaking country analysis and programming, and project preparation and management. The handbook aims to identify practical tools for incorporating poverty and social analysis into program planning and project preparation.

B. Structure of the Handbook

4. Section I of this handbook provides an overview of pertinent ADB policies and outlines how they can impact on poverty reduction. A useful framework for conceptualizing mechanisms for poverty reduction is also provided. The subsequent sections of the handbook are structured to reflect ADB's operational cycle and business practices, providing guidelines to assist in addressing poverty and social development issues in country programming (Section II), project preparation (Section III), and (forthcoming) project implementation and review (Section IV). For ease of reference, separate sections are provided for each stage in the programming or project cycles. Each section illustrates how poverty and social analysis can improve programming and project preparation, and allow better targeting of poverty reduction objectives. Relevant appendixes that provide essential supporting documentation are presented in the back of the handbook.

1.2 POLICIES AND STRATEGIES

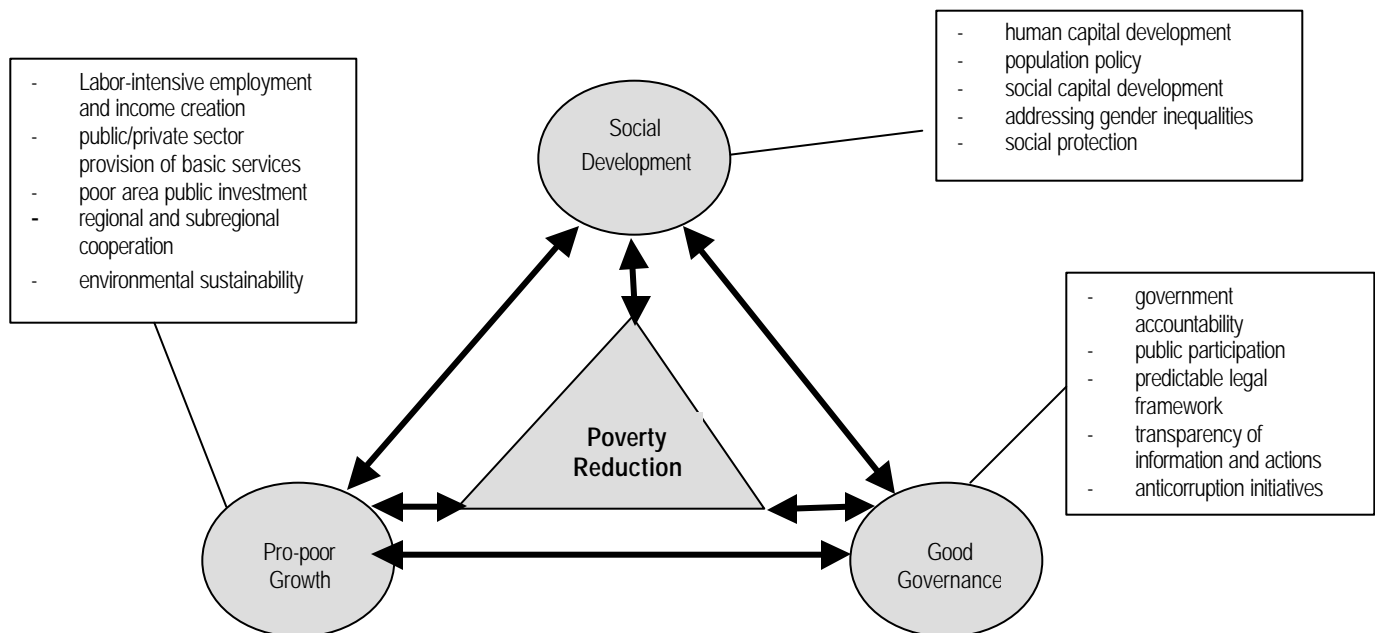
A. Background

5. Since ADB began operations in 1966, it has become increasingly apparent that institutional factors and social issues critically affect project success and sustainability. Project benefits might fail to reach the people for whom they were intended, be captured by those with money and power, or produce unexpected negative effects for others. With the growing complexity of the development agenda, ADB has increasingly recognized that efforts to reduce poverty and promote sustainable growth must address social development and governance issues, together with issues affecting macroeconomic stability, in both country programming and project design.

B. Poverty: The Overarching Goal

6. In 1999, ADB formally declared poverty reduction as its overarching goal. The resultant Poverty Reduction Strategy¹ describes poverty as an unacceptable human condition that can be eliminated through public policy and action. The strategy states that effective poverty reduction can only be achieved through promoting economic opportunities, social development and good governance (Figure I.1).

Figure I.1: Key Components of the ADB Poverty Reduction Strategy



C. Social Development Policies

7. This handbook focuses specifically on poverty reduction through poverty and social analysis. Poverty and social analysis (PSA) is a critical tool in efforts to reduce poverty and promote sustainable outcomes because it addresses the processes and structures that exclude some groups from

¹ *Fighting Poverty in Asia and the Pacific: The Poverty Reduction Strategy of the Asian Development Bank*, Manila: ADB, November 1999.

participating in and benefiting from economic development. Focusing on strategies that empower excluded groups to participate in the mainstream of development activities is a precondition for sustainable poverty reduction.

8. Since the mid-1990s, ADB has introduced a series of social development policies, covering issues such as gender and development, social protection, involuntary resettlement, indigenous peoples, and cooperation with nongovernment organizations (NGOs), together with general guidelines for addressing social dimensions in project design. Collectively, these policies and guidelines recognize that people and their communities, organizations, institutions, and societies are crucial to development outcomes. They also recognize that certain social groups are highly vulnerable and need special attention to ensure that they are included in the development process. Guidelines, checklists, and manuals have been prepared to address these policy objectives, and to set out specific operational approaches to poverty and social analysis. Appendix 1.1 provides a list of the key ADB policies and procedures relating to poverty reduction and social development, as well as the supporting documents available to assist in addressing these policy objectives. Where available, electronic links to each of these documents are also shown.

1.3 POVERTY REDUCTION: A CONCEPTUAL FRAMEWORK

9. Poverty means more than lack of adequate income. Poverty also has noneconomic dimensions such as discrimination, exploitation, lack of power, and fear. Poverty means lack of human development, a lack of voice in decision making, and a high degree of vulnerability. Poverty has multidimensional causes, manifestations and outcomes, many of which are linked to vulnerability and social exclusion. The ADB Poverty Reduction Strategy acknowledges the interdependence of economic, social, and institutional realities in tackling poverty by identifying three pillars for the poverty reduction framework: sustainable pro-poor economic growth; social development; and good governance.

10. Within this context, this handbook presents a range of options for addressing poverty reduction and social development. These options fall into three main approaches.

- (i) *Extend opportunities* to poor and excluded groups through public and private sector financing, thus building their incomes and assets.
- (ii) *Empower* poor and excluded groups by enhancing their capacity to influence the institutions that affect their lives, by strengthening their participation in political processes and local decision making, and by promoting social and gender equity.
- (iii) *Reduce vulnerability* of the poor, enhance their security, and cushion the effects of unavoidable shocks.

11. This framework encapsulates the key concepts that underpin social analysis and link poverty reduction, economic and social development, and governance objectives. It reflects the multidimensional nature of poverty and the range of approaches needed at various levels to address poverty in ways that are mutually reinforcing. Many of these elements are interlinked. For example, building assets of the poor and excluded also helps to reduce their vulnerability to shock, and empowers them through increased independence and a strengthened bargaining position.

A. Extend Opportunities

12. First, the concept of social inclusion provides an analytical framework that can encompass a variety of dimensions for understanding deprivation, vulnerability, and poverty. Ensuring that the poor can gain access to and control of goods and services² is critical for effective poverty reduction. In addition, social inclusion focuses on social processes, institutions, and mechanisms that exclude people or promote unjust patterns of integration. Social inclusion invites analysis of the specific relations, institutions, and processes that support or undermine the livelihood and opportunities of poor and vulnerable people. These are the social and structural barriers to poverty reduction and development.

13. Building the assets of poor and excluded groups is fundamental to expanding economic opportunity. Poverty means lack of a range of assets as well as lack of opportunities to acquire or access them. For example:

- | | |
|---------------------------|---|
| ✓ <i>Human assets</i> | Good health and well-being, capacity for work, skills and training |
| ✓ <i>Natural assets</i> | Land and other natural resources, including community owned common property resources |
| ✓ <i>Physical assets</i> | Access to infrastructure |
| ✓ <i>Financial assets</i> | Savings and access to credit |
| ✓ <i>Social assets</i> | Network of contacts, reciprocal obligations and political influence that can be called upon as needed |

² Examples include knowledge, information, technology, skills, land, water, credit, energy, employment, and infrastructure.

14. Returns on these assets depend upon the functioning of markets, but they also depend upon policy and legal frameworks, on public policy and state interventions, and on the political influence of different groups. The state has a central role in providing basic social services and infrastructure, which can be complemented by market mechanisms, civil society and the private sector. Using the poor and excluded in service delivery cannot only boost effectiveness and sustainability of the services, but can also contribute to empowerment and increased security.

15. Table I.1 provides examples of issues that could be reviewed and specific components that could be considered for inclusion in the design of projects to make their benefits more accessible to the poor, including for projects that do not directly address poverty reduction as their primary goal.

Table I.1: Extending Opportunities to the Poor—Some Options

Build Assets	<ul style="list-style-type: none"> • Expand infrastructure to poor areas such as slum and squatter settlements. • Use bulk charge common water points for waer supply or irrigation projects to be implemented using community management. • Extend knowledge to the poor and vulnerable, for example, by upgrading labor force skills. • Relax demand-side constraints, for example, by funding scholarships for excluded children. • Reduce environmental pollution, especially in low-income settlements. • Clean water can be made avalibale to the whole commuity by providing extra wells that can be used by low caste groups.
Ensure Access	<ul style="list-style-type: none"> • Reduce barriers to entry—knwoing the nature and priorities of potential poor communities may allow minor changes to the design so as to increase access by the poor to project benefits. • Change the site, boundaries, or catchments of the project to incorporate a higher percentage of the poor. • Make health and education services available to all vulnerable groups in the project area, both physically and financially through, for example, the use of appropriate mobile facilities. • Locate major highways, rail systems, or other transport infrastructure in areas with a high incidence of poverty, with feeder roads to provide linkages to poor areas. • Locate project activities on rural areas, areas prone to social risks (e.g. disasters), areas of high unemployment, or in informal minority settlements.
Develop Affordable Basic Services	<ul style="list-style-type: none"> • Expand the supply of basic social and economic services. • Reform public delivery of services and utilities that are affordable. • Facilitate the development of credit arrangements for meeting utility connection fees and meter installation charges. • Consider the viability of organizing public-private partnerships to ptovide low-cost public transport (e.g. buses) for the poor.
Seek Positive Externalities to Employ the Poor	<ul style="list-style-type: none"> • Look for synergistic links to adjacent planned or ongoing development programs. • Use labor-intensive technology, for example, to provide unskilled labor construction opprtunities paid at market wages. • Use local materials suppliers, particularly in poor areas. • Use pro-poor contracting agencies for hiring of labor and supply of materials. • Seek to create coincidental benefits—this is possible with many infrastructure and other projects that do not directly target poverty reduction, especially during the construction phase when opportunities can be allocated preferentially to the poor.
Address Asset Inequalities	<ul style="list-style-type: none"> • Negotiate land titling, backed by public action to support title for small farmers. • Provide new forms of title and community managed housing opportunities for urban squatters, for example, through subsidized housing loans. • Encourage girls to attend school, through cash or food incentives, by hiring more female teachers, or by constructing facilities designed for girls. • Support microfinance schemes (credit and/or insurance) for the poor and excluded.
Private Investment	<ul style="list-style-type: none"> • Extend banking access to the poor and excluded. • Provide training in modern business practive and small business management. • Reduce property/business registration weakness that discourage small investments.

B. Facilitate Empowerment

16. Successfully expanding social and economic opportunities for the poor depends upon the extent to which the poor and excluded can take advantage of those opportunities. This in turn depends on the extent to which the state and social institutions work in the interests of the poor. The rule of law may be weak or absent, which acts against the poor and excluded, leaving them without protection. Specific barriers may work against building the assets of the poor and excluded groups including, for instance, discrimination on the basis of gender, ethnicity, race, religion, or other social characteristics. The poor may be excluded from political processes and decision making. Over the longer term, the most comprehensive approach to reducing social exclusion and vulnerability lies in the *empowerment* of poor people and the building up of their *social capital*.

17. Empowerment focuses on enhancing the opportunities for the poor and excluded to participate in political processes and in making decisions that affect their lives. Empowerment is linked to the broader agenda of good governance, transparency, and accountability of the state to its citizens. Various conditions facilitate empowerment. These include.

- ✓ efficient, accountable, transparent, and responsive public administrations, with a mandate and capacity for pro-poor interventions;
- ✓ legal systems that are equitable and accessible to the poor;
- ✓ decentralized mechanisms for broad-based participation in the delivery of public services and efforts to minimize the likelihood of these services being captured by local elites; and
- ✓ a climate in which poor people's organizations can flourish, and in which the poor can take part in the political process.

18. A broad view of empowerment encompasses the wider social and political environment in which development priorities are set. It is at this level that policies are chosen and implemented that are of critical importance to the poor and vulnerable. The quality of governance has an immediate and powerful impact on the access of the poor and vulnerable to resources, markets, and opportunities.

19. Social capital refers to the trust-based networks among people that are reinforced by norms of behavior. Like other forms of capital (financial, physical, human, and natural) social capital is an asset that helps people and groups cope with poverty. Where linkages among people are dense and trusting, there is always someone to turn to for assistance, and people are expected to willingly reciprocate when they are able. Through time, those societies with the highest level of social capital have shown the greatest political stability and economic dynamism. Those with the weakest institutions and lowest levels of trust, such as those where there has been civil conflict, prolonged inequality, or oppression, have the greatest difficulty investing development funds accountably, effectively, and in a sustainable manner.

20. Assessment of social capital helps in judging the capacities and dependability of organizations and communities with which one wishes to interact, whether as a partner or as a donor to a beneficiary. Appropriate design measures, such as community-based planning and management, can be incorporated to increase social capital and empower communities. Table I.2 lists some examples of design options to facilitate empowerment of poor and excluded groups.

Table I.2: Facilitating Empowerment of the Poor—Some Options

Political and Legal Inclusion	<ul style="list-style-type: none"> • Finance legal aid; remove poverty, ethnic, or racial bias in legislation and operation of legal systems. • Make courts of justice accessible; disseminate information on legal procedures.
Good Public Management and Governance	<ul style="list-style-type: none"> • Promote a government free of political distortions, accountable, responsive to citizens. • Support sound fiscal management, including sound and pro-poor government subsidies. • Promote transparent and participatory programs, free of corruption.
Decentralization	<ul style="list-style-type: none"> • Strengthen local government capacity through training, capacity building, and resource equalization transfers. • Strengthen local level participation through development planning and management, through local government and community-based mechanisms. • Involve users in planning, managing, and financing basic services, for example, parents in schooling, and users of water supply, sanitation, other utilities, and health facilities.
Social Capital Development	<ul style="list-style-type: none"> • Build organizational capacity of the poor through support to group mobilization and to community-based organizations and networks. • Use social capital to create human and physical capital (e.g., group-based microfinance)
Promotion of Gender Equity	<ul style="list-style-type: none"> • Reform policy and legal framework. • Subsidize education of girls. • Provide gender-sensitive agricultural development programs. • Provide business and leadership training for women, and microfinance opportunities.
Addressing Social Barriers	<ul style="list-style-type: none"> • Promote affirmative action in employment policies. • Remove biases in policy, legal, and regulatory frameworks. • Encourage representation of the excluded.

C. Reduce Risk and Vulnerability

21. The concept of *vulnerability* refers to the exposure of people to short- and long-term risks and their capacity to absorb or protect themselves from these risks. Poverty frequently arises from a combination of risk, vulnerability, and social exclusion. Measuring income poverty can provide a snapshot of poverty at one point. Yet income may fluctuate over time, and households need to deal with this risk. It is therefore important to recognize that vulnerability and poverty are dynamic concepts.

22. People face a variety of risks that can push them into poverty. Risks may be chronic or may involve sudden shocks, and may also be exacerbated by certain social characteristics, such as gender, age, ethnicity, cultural or religious affiliation, occupation, or location. As societies develop and modernize, and urbanization and industrialization gradually undermine the effectiveness of traditional informal protection mechanisms, new public and/or private systems need to be put in place to reduce risks to the population. Risks may include.

- ✓ *life cycle* risks to the individual, such as illness, injury, disability, old age, or death;
- ✓ *social* risks such as crime, violence, civil strife, war, or lack of rights;
- ✓ *economic* risks such as unemployment and other labor market risks, economic transition and restructuring, harvest failure;
- ✓ *environmental* risks such as natural catastrophes and disasters; or
- ✓ *development-induced* risks, such as through involuntary displacement and its associated risks of landlessness, job loss, homelessness and marginalization, increased morbidity and mortality, food insecurity, loss of common property, and loss of support networks.

23. Although some risks affect all population groups, the poor and near poor in particular are most vulnerable to risk and shock because they have the least assets, savings or opportunities to cushion them, and least access to mechanisms to manage or mitigate risk and shock. Appendix 8.1 provides

examples of risk reduction measures for each of the main types of risk that can cause or exacerbate poverty.

24. Poverty reduction strategies can lessen volatility by reducing risk, help the poor and vulnerable to manage risks themselves, and strengthen formal arrangements for the management of risk. This means preventing shocks from occurring, managing them when they do occur, and mitigating their impact on the poor and vulnerable. Managing risk for the poor and the vulnerable can in turn enable them to pursue higher risk, higher return activities that can lift them out of poverty. Table I.3 lists some examples of design options to assist in reducing risk and vulnerability of poor and excluded groups.

Table I.3: Reducing Risk and Vulnerability of the Poor—Some Options

Reduce Exposure to Risks and Shocks	<ul style="list-style-type: none"> • Invest in accessible early warning and protection systems for hazards that address the needs of the poor and excluded. • Develop effective public preventive health schemes, especially for high-risk diseases such as HIV/AIDS, and expand coverage of basic health and nutrition services to all. • Invest in children to secure their adequate development. • Avoid, minimize or mitigate resettlement effects of development investments to reduce risks of impoverishment. • Develop micro-insurance, health, disability, life, old-age insurance and re-insurance schemes, together with effective management arrangements that provide coverage to the poor. • Develop agriculture and livestock catastrophe insurance and reinsurance schemes.
Promote Self-reliant Communities	<ul style="list-style-type: none"> • Assist communities in building sustainable livelihoods and local development. • Create social funds to help finance projects initiated, planned, and managed by communities. • Enforce disaster preparedness and regional risk management units.
Design Labor Market Programs	<ul style="list-style-type: none"> • Promote the efficient operation of labor markets (i.e., job placement/brokerage to assist in finding employment). • Develop employment-generating active labor programs. • Implement passive labor policies to improve working conditions. • Mitigate necessary labor adjustments (i.e., retrenchment plans).
Pro-Poor Social Expenditures	<ul style="list-style-type: none"> • Evaluate the effectiveness of current allocations to reduce poverty and promote social development. • Secure a percentage of public expenditures for targeted interventions.
Secure Social Assistance	<ul style="list-style-type: none"> • Ensure financing for disaster relief for natural catastrophes, economic shocks, or conflict. • Provide cash or in-kind transfers, for instance, food stamps, family allowances; temporary subsidies, such as energy lifeline tariffs, housing subsidies, or support of lower prices of staple food in times of crisis.

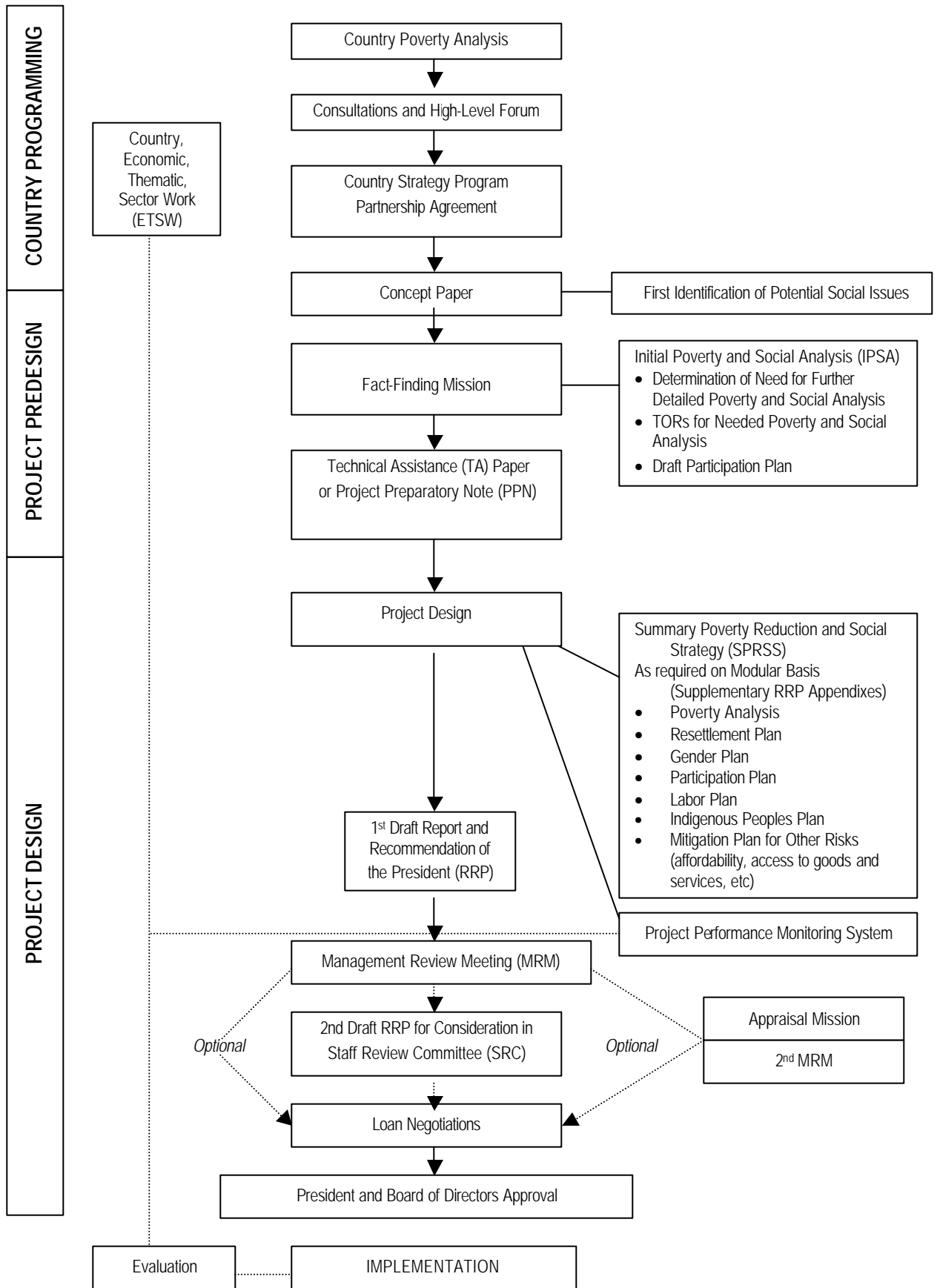
1.4 OVERVIEW OF POVERTY AND SOCIAL ANALYSIS IN ADB OPERATIONS

25. The ADB operational cycle consists of three major processes: country programming, project design and project implementation. An overview of the processing cycle is provided in Figure 2. Experience shows that poverty is best addressed using ex-ante analysis to identify which are the obstacles for poverty reduction, and what type of interventions will address better the structural causes of poverty in a certain area. Poverty and social analysis employ a range of qualitative and quantitative social research tools to assist in this identification of approaches. These tools may be brought to bear throughout program planning and project design (see Table I.4). Poverty and social analysis have a place in each phase of the country programming and project cycles, as set out in Table I.4.

Table I.4: Poverty and Social Analysis in the Operational Cycle

Project Cycle Stage	Type of Poverty/ Social Analysis	Purpose of Poverty and Social Analysis
Country and Sector Studies	Country Poverty Analysis	<ul style="list-style-type: none"> Identify the structural causes of poverty and obstacles for effective poverty reduction Agree on a national poverty line to define the manifestations of poverty Determine the effectiveness of existing policies to reduce poverty and promote social development Recommend a set of future strategic development options
Pre-design	Initial Poverty and Social Analysis (IPSA)	<ul style="list-style-type: none"> Scope out specific social constraints and poverty reduction opportunities Identify project-related risks Identify the need for and establish a method and resources for more detailed poverty and social assessment during the design phase Establish prospects for a participatory framework to enhance local ownership
Design	Poverty and Social Analysis (PSA) Summary Poverty Reduction and Social Strategy (SPRSS)	<ul style="list-style-type: none"> Collect detailed social information necessary for project design Identify explicit poverty reducing and social development objectives, outcomes, and indicators Cost out and schedule social design measures Prepare time-bound and costed social action measures and mitigation plans Confirm and consolidate the participatory framework to review and decide on options and enhance local ownership Define social and institutional arrangements Make arrangements for monitoring/evaluation of social development objectives Confirm and validate the design measures, action measures, and mitigation plans that may have been prepared
Project Implementation	Project Performance Monitoring for Different Groups	<ul style="list-style-type: none"> Assess benefit achievement Identify issues and opportunities for improvement during implementation Assess programs in action plans and mitigation plans Review achievements and failures; learn lessons for future application

Figure I. 2: The ADB Operational Cycle



To achieve ADB's overarching goal of poverty reduction, ADB's strategy in each country is based on a detailed country poverty analysis, presenting a diagnostic for poverty in the country, the causes and manifestations of poverty, any measures in place to reduce poverty, and a set of future strategic development options. The country poverty analysis is subject to thorough consultation with the government and stakeholders from civil society, private sector, and funding agencies, seeking to achieve a common understanding of the strategies, options, and trade-offs required to reduce poverty in the country. Consultations conclude in a high-level forum, which should reach a consensus on the national priorities, formalized in a poverty partnership agreement between the government and ADB that endorses the recommendations of the country poverty analysis. The ADB country strategy and program (CSP) translates these principles into specific activities. The CSP identifies a three-year portfolio designed to assist the government in reducing poverty.

27. Project preparation consists of two subphases: predesign and design. The predesign phase explores the problems generally identified at country poverty analysis and CSP, starting with a brief project concept paper and concluding in a technical assistance (TA) paper or in a project preparatory note (PPN). The predesign phase is essential to conceptualize a good project; poverty reduction is best achieved by addressing its causes, analyzing problems, involving stakeholders, and considering flexible design options at the early stages. The predesign phase sets the basis for subsequent detailed project design, therefore anticipating potential issues, including the resources required for necessary social and poverty specialists (e.g., a resettlement specialist), which are critical to ensure smooth project processing. The initial poverty and social analysis (IPSA) is a brief but meaningful scoping tool to flag issues that may be addressed in more detail during project processing, and to prepare and cost the TA paper.

28. During the project design phase, in socially sensitive and complex projects and projects with poverty focus, an in-depth poverty and social analysis (PSA) is developed, building on the issues identified in the IPSA. The PSA provides a basis to confirm the loan rationale, and contribute to in-depth assessment of the direction and scope of the proposed project in terms of potential direct and indirect contributions to poverty reduction. It examines alternative loan components to enhance poverty reduction and social development opportunities, updates the logical framework, and develops measures to overcome barriers and constraints, social risks, institutional weaknesses, or gender gaps. The PSA also forms the basis for preparing any necessary mitigation measures or plan, which should be reflected in the components, activities, resources, budget, time frame, and assurances of the final report, and synthesized in the summary poverty reduction and social strategy (SPRSS). If the project has financial and economic rates of return (FIRR/EIRR), a poverty impact ratio can be calculated.