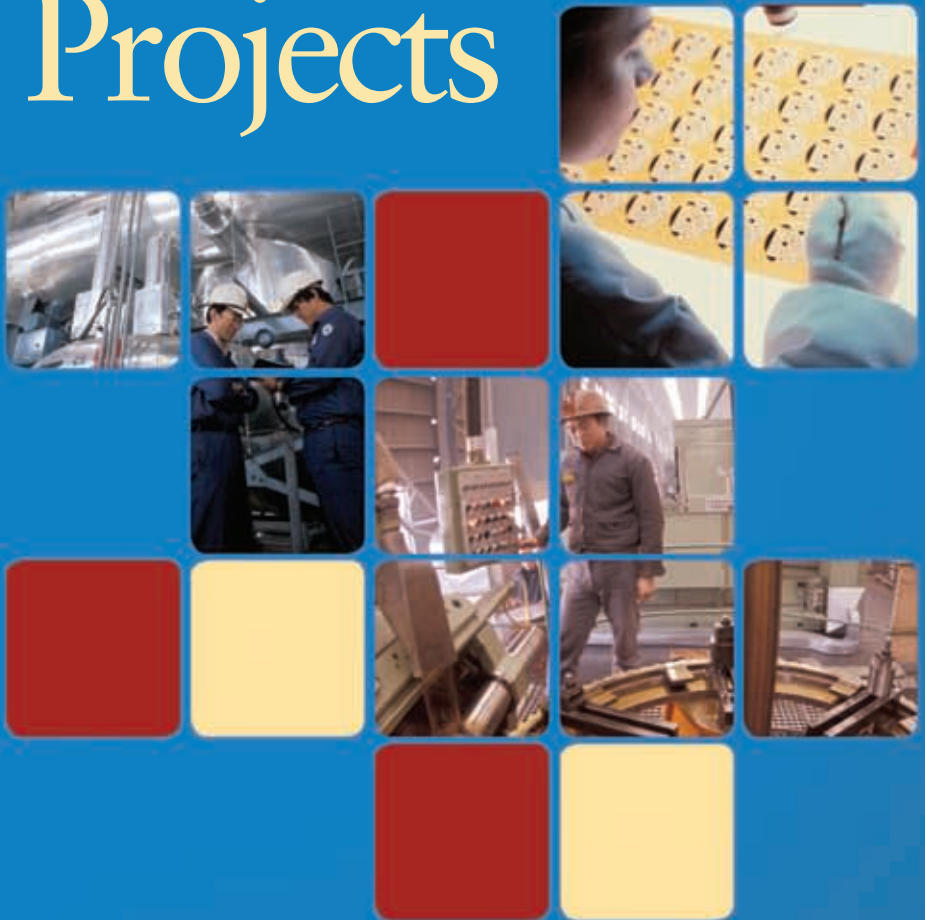


Social Analysis in Private Sector Projects





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Asian Development Bank

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6 ADB Avenue, Mandaluyong City
1550 Metro Manila, Philippines
Tel +63 2 632 4444
Fax +63 2 636 2444
www.adb.org

For orders, please contact:
Department of External Relations
Fax +63 2 636 2648
adbpub@adb.org

Preface

This brochure, *Social Analysis in Private Sector Projects*, aims to guide Asian Development Bank (ADB) staff and others working on private sector projects on how and where to include social analysis, and where to go for more detailed information on the relevant process and procedures. The goal is to facilitate the inclusion of social analysis in ADB's private sector activities and thereby enhance ADB's contribution to inclusive growth in Asia and the Pacific. The brochure has been prepared in collaboration with ADB's Private Sector Operations Department.

Acknowledgments

The brochure is based on a report prepared by Susanna Price, ADB consultant. Sri Wening Handayani, Senior Social Development Specialist, was task manager, under the direction of Robert Dobias, Director, Poverty Reduction, Gender, and Social Development Division of the Regional and Sustainable Development Department. Valuable input was received from Albab Akanda and Jocelyn Erlinda Munsayac of the Operations Coordination Unit, Private Sector Operations Department. Marife Principe provided research for the project. Princess Lubag provided production and coordination assistance. Jill Gale de Villa edited the brochure.

Abbreviations

ADB	–	Asian Development Bank
HIV/AIDS	–	human immunodeficiency virus/ acquired immunodeficiency syndrome
IPSA	–	initial poverty and social analysis
NGO	–	nongovernment organization
OM	–	<i>Operations Manual</i>
RRP	–	report and recommendation of the President
SPRSS	–	summary poverty reduction and social strategy
XARR	–	expanded annual review report

Note:

In this report, “\$” refers to US dollars.

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■ Using Social Analysis for Private Sector Projects

1. The brochure

Screening of project concepts for potential social impacts helps protect the Asian Development Bank (ADB) against risks to its reputation and provide project teams with guidance early in the project on design alternatives to increase development impact. This brochure is designed to (i) guide ADB staff and others for meeting basic requirements for social soundness, in line with ADB policies; and (ii) promote positive social outcomes, create long-term stakeholder engagement and community partnerships, and contribute to achieving the private sector's image through corporate social responsibility.

Information in the brochure complements that in ADB's *Handbook on Social Analysis*, which provides general guidance on ADB's social dimensions (e.g., consultation and participation, gender, etc.) and the application of social analysis to ADB's operational cycle and business practices. Information pertinent to safeguards is available in ADB's *Operations Manual* (OM) F2—Policy on Involuntary Resettlement; OM F3—Policy on Indigenous Peoples; and OM F1—Environmental Considerations in ADB Operations (ADB 2006 a, b, c) and is not repeated here. The brochure presents a step-by-step guide for social analysis, taking into account the special features of the entire project cycle for private sector projects. It recognizes that private sector projects are prepared primarily by the borrower(s) and processed by ADB within a shorter time frame than that for operations developed by ADB's regional departments. The reference section lists publications referred to in the text.

2. ADB's approach

ADB's approved policies and procedures establish essential requirements and good practice for social soundness. ADB's OM, which governs the preparation and implementation of private sector projects, and other ADB publications provide guidance:

- OM Section D10, Private Sector Operations, requires clear development impacts or demonstration effects (ADB 2003c).
- OM C3, Incorporation of Social Dimensions into ADB Operations, is a key document that applies to both public and private sector loans (ADB 2007c).
- ADB's *Handbook on Social Analysis* presents detailed guidance on how to implement OM C3 in ADB's operations (ADB 2007b).
- ADB's *Enhanced Poverty Reduction Strategy*, supported by OM C1 (Poverty Reduction) and the *Poverty Handbook*, requires that all ADB interventions contribute directly or indirectly to poverty reduction (ADB 2007b, 2004b, and 2006d).
- ADB's Policy on Cooperation with Nongovernment Organizations (NGOs) and related OM E4, Promotion of Cooperation with NGOs, recognize that NGOs can contribute valuable advice on the design of projects and can participate directly in implementation (ADB 1998 and 2003d).
- ADB's *Strengthening Participation for Development Results: A Staff Guide for Consultation and Participation* provides guidance on effective interaction with stakeholders to help ensure active participation of the intended clientele (ADB 2006e).
- ADB's Policy on Gender and Development and OM C2, Gender and Development, set out measures for gender screening, gender analysis, and preparation of a gender plan during project design, if needed, to ensure that the project provides equal opportunities for men and women to benefit (ADB 2003b).
- ADB's Social Protection Strategy includes a range of approaches to manage social risk, such as ensuring that ADB projects are designed and implemented in accordance with national labor laws and international core labor standards (ADB 2003e).
- ADB's OM L3, Public Communications Policy, generally applies to the private sector (ADB 2005a).

Key Questions

1. Who is responsible for social analysis for private sector projects?

The borrower is responsible for social screening, analysis, and planning to manage social risks and impacts. Borrowers finance the cost of social preparation and implementation. They take responsibility for meeting ADB policy standards, identifying and managing social issues, recruiting qualified staff, and engaging stakeholders.

ADB's role is to review the borrower's assessment and capacity. When a project is proposed for financing, ADB's due diligence for social soundness is an important factor in its decision on whether to finance the project and will determine the scope of social conditions for ADB financing. ADB reviews the borrower's assessment of social risks and impacts and the borrower's capacity to manage those risks and impacts. ADB may require the borrower to undertake or commission additional social assessments.

ADB's due diligence is commensurate with the scope and scale of the project and its likely social risks and opportunities. ADB screens projects for social impacts, prepares the initial poverty and social analysis (IPSA), and discloses information in accordance with the Public Communications Policy. ADB also monitors the borrower's performance throughout the project life.

Private sector borrowers can work with partners such as NGOs and community-based organizations,¹ local governments, research institutions, universities, and other private sector partners to conduct social analysis and to design and manage sound projects with participation of a range of stakeholders.

ADB's Regional and Sustainable Development Department advises the Private Sector Operations Department on social issues, including gender, participation, and social risks. Social risks include issues such as the spread of

¹ See *Cooperation Between ADB and NGOs* (ADB 1998) and OM E4, Promotion of Cooperation with NGOs (ADB 2003d).

communicable diseases, labor issues, and affordability of basic services. In addition to meeting ADB's social requirements, borrowers must ensure compliance with host country laws and regulations.

2. When does the project start using social analysis?

In the ADB programming cycle, the key entry point in project preparation for private sector projects is the concept clearance paper. ADB recommends that projects be screened for potential social issues at the concept clearance stage. Initial social screening for a project comprises an IPSA, as required by OM C3/OP, Incorporation of Social Dimensions in ADB Operations. The IPSA indicates how the project addresses social dimensions such as gender, consultations and participation, poverty reduction, and social risks. An IPSA is conducted during due diligence but may also be conducted earlier, during preparation of the concept paper, so that key social dimensions and policy implications of each private sector project are flagged at the outset.

3. What are the potential social issues in private sector projects?

Social issues in private sector projects may pertain to (i) adding social value and helping create broader social support (for example, through community outreach programs to promote sustainability, based on international standards of corporate social responsibility); and (ii) managing, based on international standards, social risks including labor, health, and gender risks.

Comprehensive plans to identify and manage risk may be based on social survey work, for example, addressing gender, affordability, and/or labor objectives. Measures may include developing capacity and social management systems such as policy enhancements, selection criteria, procedures for management, and monitoring and evaluation. ADB requires comprehensive plans to address specific social issues arising from a project (e.g., gender, labor issues, and human trafficking). Projects involving financial intermediation, credit lines, equity investments, or establishment of a facility require social analysis, as given in ADB's *Handbook on Social Analysis* (ADB 2007b, Appendixes 7 and 8). Subsequent investments financed under a fund, facility, or credit line often cannot be identified by the time the ADB investment is approved by the Board. For such investments, the development of a social management system is recommended.

Especially for infrastructure projects, the construction phase may raise labor issues requiring, for example, measures to preclude child labor, bonded labor, human trafficking, or unequal pay for equal work, and to ensure workers' health, safety, equity standards, and freedom of association. During construction, with the accumulation of a large project workforce, and with pressure on local resources, measures may also be needed to mitigate adverse consequences for local people.

4. Who are the stakeholders?

Stakeholders are any individuals, groups, or organizations that are affected by or can affect, for better or worse, the performance of a project. Stakeholders are generally identified through a stakeholder analysis (ADB 2007b, Chapter 5). Typical stakeholder groups include affected people and people linked to the core business. Stakeholder groups extend beyond the core business to encompass communities living near the project or impacted by it; government agencies with responsibilities for aspects or approvals related to the project; elected representatives or politicians; and civil society organizations such as NGOs and community-based organizations, workers' organizations, local chambers of commerce, research institutes, and professional institutions.

Stakeholder analysis involves three steps: (i) identifying major stakeholder groups and verifying that people purporting to represent them actually do so, (ii) determining stakeholders' relative importance and influence on project outcomes, and (iii) prioritizing and selecting representatives among stakeholders to be included in consultative processes. Special attention may be needed to reach vulnerable groups of stakeholders such as the poor, women, disabled people, and indigenous peoples.

5. How does stakeholder identification influence projects?

Identification of stakeholders provides the basis for determining the scope and design of (i) more detailed social analyses, (ii) public consultation and disclosure strategies, (iii) benefit sharing and community development strategies, (iv) monitoring programs, and (v) project approval strategies.

6. How is stakeholder engagement tailored to each project?

Effective negotiation strategies build trust and confidence in positive outcomes for all stakeholders. Monitoring and reporting mechanisms that involve stakeholders are likely to be well-received. Management systems to support stakeholder engagement will include clearly defined objectives and targets and established timelines and budget. ADB's *Staff Guide to Consultation and Participation* provides useful information for engaging with stakeholders (ADB 2006f).

Borrowers are increasingly recognizing the importance of stakeholder engagement as a strategy that goes beyond managing social risks. The scale of effort directed toward stakeholder consultation will vary with the scale and complexity of the project.

ADB teams will review the strategy for and progress in stakeholder analysis during their initial project visits for concept clearance and due diligence, following up during project implementation. Depending on the project context, they may visit offices of the borrowers, government agencies, local organizations, representatives of civil society, and international financial agencies. ADB's project team usually conducts joint missions with other cofinanciers. During due diligence, the project team interacts with affected people at the village level where applicable.

7. What is the long-term outcome of stakeholder engagement?

Sustained stakeholder engagement fosters improved risk management and better outcomes on the ground. Stakeholder engagement can lead to a long-term, more strategic channel for building relationships, mitigating risk, and identifying new business.

8. Is social analysis required for every project?

Every project requires an IPSA and social analysis during design to enable the preparation of the summary poverty reduction and social strategy (SPRSS). When the IPSA is completed, ADB makes it available to the public (ADB 2005b, para 87). However, the extent of social analysis during project design will vary. The initial screening determines whether in-depth social analysis is

necessary during project design, based on assessment of likely policy impacts, social risks, and opportunities.

Some projects have no direct adverse social impacts and little opportunity for creating social value. These include some capital markets investments—for example, investments in securities companies and rating agencies and subscriptions to bonds and debentures. In such a case, the IPSA should likely indicate that little or no further social analysis is required.

Credit enhancement products that may be included in private sector operations encompass forms of guarantees and syndications. ADB requires beneficiaries of credit enhancement products to comply with policies applicable to ADB operations.² ADB requires the project team to conduct due diligence for compliance with social dimensions requirements.³

Large, complex projects in certain sectors may carry high social risks—examples are infrastructure, energy, and projects supporting a restructuring or reform agenda. Such projects require the preparation of comprehensive social assessment. Social assessment will address issues such as stakeholder participation, gender, and labor and other social risks such as HIV/AIDS and human trafficking. Social soundness may also require that such projects deliver community outreach measures to balance adverse impacts and maximize goodwill through benefits for local people.

9. How is social analysis applied to investments through financial intermediaries?

ADB supports capital market developments through financial intermediaries. Investments may be diverse, including private equity; lending to small, medium-sized, and large businesses; project finance; trade finance; housing finance; and microfinance. When ADB supports private sector financial intermediaries, at concept clearance and through due diligence, it reviews the business of the clients or borrowers from the financial intermediaries to identify any activities that might create risks, raise social opportunities, or trigger social policy compliance requirements.

² See OM C3 (ADB 2007c) and OM D9, Credit Enhancement Operations, BP/ para 2 (vii) p. 2 (ADB 2007a).

³ See OM D9, Credit Enhancement Operations, OP/ para 3 (iii) p. 2 (ADB 2007a).

ADB also reviews the capacity of the financial intermediary to identify social risks and opportunities, screen investments, prepare social plans and measures, manage social issues, and report on them effectively to ADB. ADB reviews the management system to ensure that social issues can be addressed and sufficient qualified and experienced staff members are available to address social issues knowledgeably.

The financial intermediary is expected to establish and maintain a social management system with sufficient capacity to ensure that its investments meet ADB requirements. This includes establishing adequate policies, systems, and procedures to assess and monitor the social impact of subsequent investments in accordance with parameters established by ADB for this purpose.⁴ All subsequent investments of financial intermediaries should comply with social and environmental laws and regulations of the developing member country and conform to ADB's social dimensions requirements.

10. What information about social dimensions is provided to the public?

ADB's OML3, Public Communication, applies to private sector projects. This includes disclosing the project information document, which contains the summary of social issues (ADB 2005a). The initial project information document for a private sector project will be made publicly available after ADB has determined that a project is likely to be presented to the Board, but no later than 30 calendar days before the date for Board consideration. ADB will make the IPSA publicly available upon completion. ADB requires borrowers to make social monitoring reports available to the public, particularly the project-affected people. When social monitoring reports have been disclosed locally to affected people, ADB makes the reports publicly available.

⁴ See OM D6, Financial Intermediation Loans, BP/p. 3 (ADB 2003a).

■ Social Analysis in Private Sector Project Cycle

The project cycle for ADB's private sector operations is as follows:

- **Identification.** Projects are identified through exchanges by ADB project teams with private sector interests,⁵ as part of the business climate dialogue and during preparation and updating of the country partnership strategy.
- **Pre-design and preparation.** During pre-design and preparation of a project, concept clearance is prepared and sought, the project is screened for impacts pertaining to social dimensions (e.g., consultation, social safeguards, gender, labor issues, HIV/AIDS, and human trafficking), and due diligence is conducted (including the IPSEA).
- **Credit Committee review.** The project team undertakes an in-depth examination of the social dimensions of the project and its sponsors, prepares the SPRSS, and includes the findings in the report and recommendation of the President (RRP). The RRP is then submitted to the Credit Committee for review.
- **Deliberation on the project merits by ADB's Board of Directors.** The internal documentation for the project is finalized and circulated to ADB's Board of Directors for consideration.
- **Financial closure.** Financial closure is achieved after the signing of the necessary loan documents or equity subscription agreements.
- **Implementation.** The project is monitored and administered during implementation.
- **Evaluation.** The project is evaluated after completion, and the results fed back into the project cycle.

⁵ Sponsors may also apply for ADB financing as explained in *Private Sector Finance: Catalyzing Private Investment in the Asia and Pacific Region* (ADB 2008a).

1. Identification

During project identification, the ADB project team determines the type of project and its potential social dimensions issues. The team obtains preliminary information on which to base the IPSA preparation. During project identification, the team will draw on social analysis for and information in the country partnership strategy.

2. Concept clearance

For concept clearance, the sponsor provides relevant social information. ADB reviews the information to ensure that the concept clearance paper accurately reflects information on potential social issues that need to be addressed during project design. Based on an internal review, the concept clearance paper is submitted by the ADB project team for Management's approval.

3. Due diligence

After project clearance, the ADB project team will visit the project site, offices of the sponsor, and other locations if necessary. The team will meet with the sponsor, government agencies concerned, and local and international financial agencies to review the feasibility and environmental and social impact studies to determine the overall viability of the project.

The ADB project team, in compliance with OM C3, prepares a draft IPSA for posting with the project information document through the Disclosure Management System. The IPSA should (i) identify poverty and social impacts expected from the intervention, as a contribution to results at the sector and country levels; (ii) identify key social issues (such as participation, gender, labor, affordability, and other risks and/or vulnerabilities) that need to be addressed during project preparation and the ensuing project; (iii) identify plans and terms of reference to assist in project preparation; and (iv) identify and allocate resources for conducting further poverty and social analysis.

4. Credit Committee review

The ADB project team reviews the revised/updated social analysis documentation and prepares the RRP for interdepartmental circulation, including the SPRSS (in compliance with OM C3). The RRP is revised as needed and

a comments matrix is prepared. The RRP is then submitted to the Credit Committee for review.

5. Deliberation on the project merits by ADB's Board of Directors

The ADB project team finalizes the RRP following guidance provided by Management during the Credit Committee review. Following this, the internal documentation for the project is finalized and circulated to ADB's Board of Directors for consideration.

6. Financial closure and negotiations

The borrower reviews the terms of the financing agreements and conditions precedent to disbursement, which are prepared by the ADB project team. The team prepares the social provisions of the financing agreements and formulates the conditions for disbursement. It will discuss and negotiate the terms and conditions of ADB assistance with the advice of the legal counsel. Social requirements will be incorporated into covenants in the financing agreements through specific conditions or through reference to the social plans and measures.

7. Monitoring and administration

General procedures for ADB. The quarterly review encompasses portfolio quality, risk ratings, and contact with client companies. Social monitoring and project administration requirements form an essential element of the financing agreements and may be specified for each project in the project design and monitoring framework. Each social plan includes its own integral monitoring and evaluation arrangements. Monitoring duration, actions, responsibilities, and reporting requirements will be specified in financing agreements.

ADB will normally monitor social performance of projects using (i) the review of annual (or semiannual) social monitoring reports to be submitted by the borrower, (ii) ADB review missions in accordance with the arrangements specified in the legal agreements, and/or (iii) visits to the project site(s) by an ADB social development specialist or staff consultant.

The borrower's monitoring and evaluation. The borrower is responsible for establishing its own internal and external procedures to monitor and measure the effectiveness of the implementation of social plans and measures, and to report on progress. The scope and depth of monitoring are to be commensurate with the scale of the project's social risks and impacts. The internal monitoring system will generally comprise records to track performance, and, in consultation with ADB, may be supplemented by more dynamic mechanisms such as inspections and audits. Monitoring should be adjusted according to performance experience and feedback, documenting and reporting corrective actions where necessary.

Where social issues are complex or sensitive and may risk harming project-affected people or ADB's reputation, ADB may request the borrower to establish an independent monitoring team with public disclosure of the results, together with actions taken to address any issues arising. In this case, external reporting and public disclosure may be warranted. Such an arrangement should be specified in the financing agreements.

8. Project completion and evaluation

ADB prepares expanded annual review reports (XARR)⁶ which provide a concise description and assessment of its private sector operations from identification to completion, and evaluates the adequacy of preparation, design, appraisal, implementation arrangements, and performance of the sponsor and ADB. XARRs are prepared for private sector projects after early operating maturity.⁷ ADB may request the borrower or the independent monitor to prepare a report of the social plans. Some projects are selected for post-evaluation by ADB's Independent Evaluation Department, which conducts an independent validation of XARRs, and in-depth evaluation of selected completed individual operations through project performance evaluation reports. Such reports are prepared several years after project completion following the department's *Guidelines for Preparing Project Performance Evaluation Reports for Nonsovereign Operations*. The audits provide an opportunity for in-depth assessment of the outcome of social plans and measures, and the social performance of a project and its associated mitigation measures.

⁶ XARRs are prepared for nonsovereign operations as per *Project Administration Instructions* 6.07 (ADB 2008b).

⁷ See OM K1, Financial Intermediation Loans, OP/para 6 (ADB 2009).

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Social Analysis in Private Sector Projects

The Asian Development Bank (ADB) supports equitable and sustainable social development by giving attention to the social dimensions of its operations. This brochure contributes to this undertaking by providing step-by-step guidance to address social dimensions such as participation, gender, and other social risks and vulnerabilities in the context of the private sector project cycle. It complements the *Handbook on Social Analysis*, which provides general guidance on incorporating social dimensions into ADB operations.

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries substantially reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to two thirds of the world's poor: 1.8 billion people who live on less than \$2 a day, with 903 million struggling on less than \$1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

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