

# Pathways Out of Rural Poverty and the Effectiveness of Poverty Targeting

- Poverty targeting has been used widely in development projects to channel funds to poor regions or deliver benefits to poor households.
- There are numerous studies on targeting but most measure its effectiveness in terms of distributing inputs such as budgets, funds, or projects, or in terms of short-term benefits such as subsidized farm inputs, training courses, or entitlement to construction work during project implementation. What is lacking is results-based evaluation that measures the effectiveness of targeting in terms of the number of households that rise out of poverty.

## Background

In the Asian Development Bank (ADB), wide use of geographic and household targeting to channel funds to poor regions or deliver benefits to poor households has fueled the need to evaluate the effectiveness of poverty reduction interventions to understand what works, what does not, and why.

In 2006, the Operations Evaluation Department conducted a **Special Evaluation Study on Pathways Out of Rural Poverty and the Effectiveness of Poverty Targeting** to provide insights into factors determining the effectiveness of poverty reduction interventions.<sup>1</sup> The study selected seven ADB-financed projects for review, including: (i) one rural credit project and one rural infrastructure project in Viet Nam, (ii) two expressway projects in the People's Republic of China, and (iii) one land settlement and two township development projects in Malaysia.

## Summary of Findings

Using a poverty exit framework, the study examined how the rural poor selected strategies to rise out of poverty, how various factors—such as household resources and the contextual conditions households faced—influenced their selection of the strategies, how

sustainable the poverty exit was, and how effective poverty reduction interventions had been.

The study observed that while poverty had been reduced in all the areas visited, the sustainability of the poverty exit varied significantly. Agriculture had played a key role in poverty exit in the early stages of industrialization or in areas with abundant farmland relative to rural labor. However, as rural populations continued to expand, shortage of farmland per capita, large and rising surplus rural labor, and lack of sufficient off-farm employment in poor regions became primary causes of persistent rural poverty. In that context, continued agricultural intensification and diversification, even if it increased crop yields at higher cost because of greater use of purchased inputs, did not provide a sustainable poverty exit for most.

Some of the projects had upgraded isolated roads in remote regions without connecting them to growth centers or large road networks. The investment temporarily improved living conditions without lifting rural residents out of poverty. What is more, even with good roads, these regions remained unattractive to private investors because of their remote locations and poor resource endowments. Poor roads, then, were a result and not a cause of poverty. Their improvement was neither a necessary condition nor an effective measure for poverty reduction. Indeed, the majority of

the poor had risen out of poverty by migrating to areas of economic growth. Even in Viet Nam, where the government had accurately identified poor communes and registered poor households, and where leakages of project benefits to the non-poor had been relatively small, targeting did not lift the poor out of poverty in the areas visited.

The study established that the targeting approach is based on easy assumptions, viz.: (i) poor people live in poor regions, (ii) public investment in poor regions leads to poverty reduction, and (iii) the solution to poverty reduction in a poor region lies within that region. Rather, the study noted that: (i) the bulk of the poor live in less poor regions, (ii) the location of projects in poor regions did not guarantee significant poverty reduction, and (iii) the solution to persistent rural poverty in remote and poorly endowed regions lies largely outside them.

Targeting projects on those who stand to benefit from them may direct the attention of project designers and implementers away from other important matters. The exclusion of non-poor participants may isolate the poor from dynamic actors in society and from the mainstream of economic growth, and forego the opportunity of employment generation that is often led by the non-poor. Also, some productive poor may develop dependence on external assistance.

### Recommendations

Unsatisfactory results have fueled a debate on whether ADB should cut back on investment in rural areas. More pertinently, the study recommended that it explore alternative approaches.

- ADB should distinguish the productive poor from those without working capacity. The latter should be taken care of by welfare programs, where targeting is an effective mechanism to minimize leakage of public subsidies to the non-poor.
- For the productive poor, project interventions need to be tailor-made to tackle squarely the most binding constraints to poverty reduction in project areas instead of locating a standard investment package in poor regions or distributing temporary project benefits to the poor.
- Solutions for poverty reduction in poor regions may require public investment in non-poor regions that are naturally attractive to private investors to stimulate economic growth. Poverty reduction

projects may require active participation of non-poor individuals or private firms in job creation.

- Instead of investing a standard package to upgrade rural infrastructure or support agricultural production in all poor regions regardless of their particular causes of poverty, ADB should require the design of tailor-made interventions based on a thorough understanding of local realities in particular project areas, and explore alternative interventions that more likely lead to effective reduction of rural poverty.
- Alternative interventions may include: (i) infrastructure projects in areas with potential for generating sizeable employment—even if they are not poor, (ii) projects facilitating migration or reducing its costs, (iii) projects enhancing access to non-subsidized loans to facilitate self-employment or employment generation, (iv) provision of low-cost health services to all rural residents to reduce household vulnerability, (v) provision of non-subsidized emergency loans for rural households to handle shocks and recover from them, (vi) provision of low-cost loans for parents to invest in children's education, including post-compulsory education, that may effectively break inherited poverty, and (vii) long-term loans for private investment in small-scale rural infrastructure. Pilot testing of all such alternative interventions is needed, as is vigorous evaluation of pilot results before replication.

### Feedback

**ADB Management's Response** noted that the study challenged some of the poverty interventions practiced by ADB. Notwithstanding the small sample of case studies, it acknowledged that the issues raised were important and that the views expressed were sharp. It observed, however, that some of the lessons publicized by the study were already being incorporated in project designs. The **Chair's Summary of the Development Effectiveness Committee Discussions** endorsed the general recommendation that ADB should explore alternative approaches and thought that the study did provide a useful framework for doing so.

<sup>1</sup> 2006. ADB. *Special Evaluation Study on Pathways Out of Rural Poverty and the Effectiveness of Poverty Targeting*. Manila. Available: <http://www.adb.org/Documents/SES/REG/Rural-Poverty-Targeting/ses-rpt.pdf>