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RESEARCH POLICY BRIEF No. 9

Poverty Targeting in Asia:

Experiences from India,
Indonesia, the Philippines,
People's Republic of China and
Thailand

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POVERTY

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John Weiss

This paper summarizes some of the key findings of detailed country case-studies from the project Poverty Targeting in Asia; details to support the points made here can be found at www.adbi.org/publications/

Introduction

Poverty targeting, defined as the use of policy instruments to channel resources to a target group identified below an agreed national poverty line, is used by all governments in Asia in one form or another, either to ‘protect’ the poor from adverse shocks or ‘promote’ their long-run move out of poverty. Such measures typically include reaching the poor with credit, food, employment, access to health and other social facilities and occasionally cash transfers.

The ADB Institute has conducted surveys of the experiences with poverty targeting in a number of large economies in South Asia (India), South East Asia (Thailand, Philippines and Indonesia) as well as in the People’s Republic of China (PRC). In some of these countries poverty targeting has a relatively lengthy history stemming from longstanding social welfare concerns (India and to some extent the Philippines and PRC), whilst elsewhere it originated principally in the late 1990’s in response to the impact of the regional Financial Crisis (Thailand and Indonesia).

Errors of targeting can in principle arise for several reasons: inaccurate specification of who are in fact poor; poorly designed programs that do not reach the target group even if it is known accurately; and poor governance in the implementation of schemes so that benefits leak to the non-poor. Since targeting has been widely used over the past two decades there is now a relatively long record of experience that can be surveyed.

Experiences in the five case-study countries suggest that errors have been very significant, leakage rates have been high and many of the poor have not been covered, with the implication that in some cases these programs have had only a minor impact on poverty reduction. One cannot conclude from this, however, that no special efforts should be made to promote or protect the poor, rather that the impact and cost-effectiveness of all schemes need to be reviewed regularly.

Classification of Targeting

Measures to reach the poor can be classified in different ways. For example:

- Targeting by activity, such as primary health care and primary education, where it is established that the distribution of benefits tends to be progressive. It has become commonplace to argue that these

types of activity should have priority over for example urban hospitals or higher education on the grounds of the lower uptake of such services by the poor. This has been termed ‘broad targeting’, as compared with narrower forms of targeting that attempt to identify the poor more precisely.

- Targeting by indicator, where alternatives to income, that are expected to be correlated with poverty, are used to identify the poor. These can include lack of, or size of, ownership of land, form of dwelling, and type of household, for example number of children or gender of the head of family.
- Targeting by location, where area of residence becomes the criteria for identifying the target group, as a particular form of indicator targeting. Poor area programs, where all residents are assumed to be poor, have become relatively common and, for example, were a central element in poverty reduction initiatives in PRC.
- Targeting by self-selection or self-targeting, where programs are designed to be attractive only to the poor. An example is employment creation or ‘workfare’, where payment is either in cash or in food, at equivalent wage rates that are below market-clearing levels and therefore only of interest to those with no opportunity to work at the market wage. Another self-selection procedure is the subsidization of low quality foodstuffs (like high-broken rice).

Scale of Targeting

The scale of resource devoted to targeting is important not just in assessing the overall impact of such expenditures on the poor, but also in terms of the potential trade-off between poverty alleviation and economic growth. In most countries, however, the scale of public poverty focused expenditures has not been large enough to raise the issue of a potential or actual trade-off. India is the country with the longest record of poverty-focused interventions and of our cases the one where such expenditures appear to have taken the highest share of the budget of central and state or local governments.

Estimation of total expenditure on poverty-targeted programs in India is difficult because of the variety of schemes and the range of financing whether at the central, state or district level. Excluding fertilizer subsidies, which are

not explicitly targeted at poor farmers, it is estimated that the largest targeted programs were about 11 % of the central government expenditure and 2% of GDP. If fertilizer subsidies are treated as poverty targeted interventions the proportions rise to 15% and 3%, respectively.

Indonesia is the other case where poverty targeted expenditures took close to 10% of central government expenditure. The maximum estimate is for around 9% at the peak of these programs in the late 1990's in the immediate aftermath of the Financial Crisis, although the figure has probably declined significantly since then. In other countries the proportions taken by these activities in central government expenditure are estimated to be much lower: around 5% in PRC over most of the period since the mid-1980s, somewhere between 3% and 5% in 2000 in Thailand (depending upon whether or not the education loans program is included as a poverty targeting expenditure) and no more than 1.5% in the Philippines in the immediate pre-Financial Crisis period.

With the exception of India, none of these programs seems large enough to suggest a major diversion of resources away from directly productive activities and hence a trade-off with growth objectives.

Identification of the Poor

Apart from self-targeting and the use of broad targeting—that focuses on particular categories of activities rather than their users—other forms of targeting, by definition, require inclusion and exclusion criteria, so that the poor can be separated from the non-poor. However, collecting accurate data on household income or consumption is difficult. The use of modern 'poverty mapping' techniques, which combine data from household surveys (that allow a link between consumption levels and various household characteristics) with data from population censuses that collect detailed location-based data on households, is very recent for our country cases. Hence in practice up to very recently all of the countries used approximate indicators for identifying the poor; for example various basic need measures or rough estimates of average income in a particular village or larger geographic unit.

In India there was a serious effort in the 1990s at administrative identification of the poor as a means of targeting the food and other subsidies from the public distribution system. As income estimates were uncertain, other

additional criteria included housing conditions, number of family earners, land access and ownership of livestock and consumer durables. State governments had the responsibility for identifying the poor, although the process was slow and incomplete and even where surveys were undertaken identification cards were not provided to a significant number of poor families.

In Indonesia, receipt of food subsidies was determined by the classification scheme of the National Family Planning Coordinating Board, which covers households across the archipelago. This classified households into a number of categories on the basis of criteria including food consumption patterns, access to health care and possession of alternative sets of clothing. Village-based programs were also an important part of targeted poverty measures in Indonesia. Here poor villages were designated using a scoring system covering social and economic characteristics, including infrastructure, housing and population. Classification of a village as poor ('neglected') was based on its position relative to the provincial average and a subjective assessment from a field inspection by local officials. By this twin approach, 31% of villages in the country were classed as neglected in 1993.

In PRC geographic targeting has been the key approach (until 2001) with poor counties being the basic units for central government poverty reduction funds. Although originally when the poor county designation system was initiated in 1986 the aim was to base this on average per capita income of rural residents, this came to be superseded by other criteria, with counties in areas of revolutionary bases and minority communities, as well as pastoral areas, receiving the 'poor' designation despite the fact that their income per capita was well above the initial norm. In 2001 the focus shifted from 'poor county' to 'poor village' designation, so that in principle poor villages could receive poverty funding even if they were not located within a poor county. Poor village designation was carried out using a weighted poverty index generated by the scores under various indicators: including grain production, cash income per person year; housing quality and access to potable water, electricity and all weather roads.

In Thailand, poverty estimates have traditionally been based on income and expenditure data from the Socio-Economic Survey of the National Economic and Social Development Board. In principle regional targeting of poverty funds should have been important, but in practice there was only a

very weak correlation between provincial incomes and the allocation of central government expenditure.

In the Philippines, again location targeting was significant with priority provinces identified for most schemes; within these provinces the most depressed districts (barangays) were to be the main beneficiaries. Where feasible poverty was defined in terms of unmet basic needs (in terms of shelter, health and education, for example). Where data were unavailable, local social workers were consulted in the identification of the poor. More recent initiatives, combine a location targeting approach with poverty mapping within provinces. Within provinces the poorest 25% of municipalities are selected using a poverty map. All districts within the chosen municipalities can receive funds.

Misappropriation

Apart from technical difficulties in identifying who the poor actually are, governance issues are raised in all the country cases to explain relatively high levels of leakage, as funds intended for the poor are diverted to others. Food and credit subsidy programs and employment creation schemes, in particular, offer considerable scope for malpractice. India may not be the worst of the country cases studied, but various evaluation reports both official and unofficial have documented the problem clearly. For example, an assessment of the employment scheme, the Employment Assurance Scheme (EAS) found that the rules were being clearly broken. Self-targeting was undermined by the use of contractors, who hired local labor, and the norm that 60% of costs should be on labor was often ignored. Nationally it was estimated that only 15% of expenditure on the scheme was going as benefits to workers, against a target of 60%. Under-coverage was also important on average in many states with effective annual coverage of the target group of less than 10%.

In India, it is instructive that the most successful scheme in terms of low leakage and high coverage, is the very modest (in terms of resources) scheme to target the elderly (above 65) and destitute. Corruption appears low because the amounts are small and are paid directly to post office savings accounts or handed over in cash by village workers. This suggests that narrowly defined and modest schemes can work.

The Indian cases of malpractice in poverty-focused expenditure may be far from the worst, but they are the best documented. In Indonesia there have

been many allegations of corruption and malpractice, but these are less firmly based on evidence. For example, the employment creation programs through labor-intensive infrastructure schemes, which were one of the key planks of the response to the impact of the Financial Crisis, were alleged to have been associated with considerable malpractice by local officials as expenditures designed to cover wages were diverted to materials and equipment, which could be sold locally. For the rice subsidy scheme in Indonesia, the main complaint of evaluation reports was that village officials and community leaders chose not to target within their own village communities, but rather distributed more or less equally between families regardless of apparent poverty status. This is put down principally to social pressure rather than corrupt practices. The consequence was that on the basis of survey data, roughly twice as many families were receiving subsidized rice as planned by the central government and hence average allocations per family were well below the target of 20kgs.

The Philippines is another case where malpractice is often alleged and a number of targeting schemes left considerable discretion for politically determined allocations. For example, in the 1990s under the Care for the Poor program to meet basic needs of the poor, two-thirds of funds were reportedly allocated on the decision of congressmen, and not on the decision of government implementing agencies.

Apart from motives of corruption, the natural objectives of public officials can also create targeting errors. This appears to have been particularly important in the poor county employment creation and subsidized loan programs in PRC, where because of the financial constraints they faced, local officials had incentives to divert funds to projects capable of generating revenue rather than funding those projects with the greatest direct poverty impact. Similarly, with microcredit schemes in PRC and elsewhere, the officials of the implementing banks were under pressure to lend to the more creditworthy customers, who would not be the poorest households.

Under-coverage and Leakage

Aside from malpractice, which has been relatively common, if not always well documented, in the country cases there are many instances of technical errors of targeting. This can be demonstrated most readily for location targeting

measures, since average income and consumption estimates are normally available at the level of provincial or local government units and these can be compared with national or provincial poverty lines and with the allocation of public expenditure. Most studies indicate that regional targeting has in practice been a relatively 'blunt instrument' for reaching the poor.

For Thailand, in regional terms public expenditure in general (and the small component that refers to poverty targeted interventions) there was no clear bias in allocation towards poorer provinces. For many services, expenditures per capita were higher in richer not poorer provinces, clearly contrary to notions of regional targeting priorities. For PRC the poor county program misclassified a number of counties and completely neglected the poor resident in non-poor counties (who were as much as 38% of the total poor in 2001).

For the Philippines, independent ranking of provinces by the estimated degree of income poverty shows a considerable mismatch with the official provincial priorities. Out of the 26 priority provinces only 11 are in the ranking of most depressed by poverty indicators. It is clear that formal poverty data were only one of a number of factors used by the government to determine priority status. Pilot surveys for Indonesia show many of the poor (over 40% on some areas) living in villages that were not part of the national Neglected Village program.

Self-targeting schemes were intended to overcome many of the problems faced by narrow targeting. However they have also proved disappointing in many cases. In India there has been considerable experience with food for work and employment creation programs designed to attract the poor by offering below market-clearing wage rates. However evaluations have revealed serious under-coverage. In the 1990s the Employment Assurance Scheme offered on average only 17 days of employment per person per year against a target of 100 days.

As well as the misappropriation noted above, other explanations include the slow release of central government funds to the states and lack of matching funding by the states themselves. In other schemes, however, the level of wages set for employment has been identified as a critical factor with relatively high and therefore attractive wages leading to a 'crowding out' of the poor. A similar conclusion on the impact of relatively high wages is reached for Indonesian employment creation schemes.

Self-targeting has also been implied by health and nutrition schemes. For example, in Indonesia the poor are entitled to health cards giving them access to free medical treatment. Insofar as the better-off will prefer to pay for improved access to health care, there is an element of self-targeting in such a measure. More explicit self-targeting is involved in the Affordable Medicine for All Program in the Philippines, which provides free drugs for a limited number of conditions at public hospitals and a limited number of distribution outlets, to which it is expected only the poor will choose to go for drugs.

Broad targeting, based on types of expenditure, which the poor will use disproportionately, offers an alternative to the type of narrow targeted schemes discussed above. Assessing the impact of measures like health and education expenditure is normally done by 'benefit incidence analysis'. Of the case-study countries the distributional effect of public spending is only assessed in detail for Thailand, with the finding that only in the case of government agriculture expenditure does per capita benefit fall with income. Hence, here there is little evidence that broad expenditures have a targeted impact on the poor, although the data do not allow a disaggregation into the benefits from sub-categories of expenditure, such as primary education or primary health care.

Cost effectiveness

With relatively high levels of leakage the expectation is that in practice most targeting measures have been high cost means of transferring benefits to the poor. The few cost effectiveness estimates that are available support this. For India, a comparison of employment guarantee schemes and food subsidies suggest that at best the cost of transfer is nearly double the benefits received by the poor. Separate estimates of the cost of the EAS in three states suggest that the cost per job created was more than four times the wage paid.

The operations of the National Food Authority (NFA) in the Philippines, particularly through its rice subsidy, have also been costly. This rice is sold in special retail outlets in a form of self-targeting and much will leak to the non-poor. Assuming a 50% leakage rate, estimates suggest that in 1997 it cost Pesos 4.2 per peso of benefit received by poor consumers and Pesos 2.5 per peso of benefit in 1998. Much of this mistargeting will have been due to a regional misallocation with some of the poorer provinces being under-represented, relative to their share in poverty, in the receipt of NFA rice.

Conclusions

Some errors of targeting and some misappropriation are inevitable in any economic environment and more can be expected in low-income countries. Further, the very modest level of resources directed at the schemes would also limit their impact, even given far lower targeting errors. However the consistent picture, which emerges from the available evidence, is that while some schemes may have had a modest positive effect on the poor, in our case-study countries trends in poverty reduction have been driven principally by macroeconomic developments—the rate and pattern of economic growth—rather than by targeted interventions.

There is a vast literature on the relationship between growth and poverty, which concludes there is virtually everywhere a clear negative relationship, although its strength varies between countries, with different social, economic and political structures. For our country cases, for example, estimated elasticities of poverty incidence (the proportionate change in the headcount ratio relative to the proportionate change in GDP per capita) are -0.9 for India, -2.0 for Thailand, -0.7 for the Philippines and -0.8 for PRC. However, the issue remains of the impact of poverty targeted programs discussed here, either in reinforcing the positive effects of growth or in protecting the poor at times of recession.

As noted above, it would be unrealistic to expect a dramatic impact, even in the presence of more accurate targeting, given the modest budgets allocated to these funds. In addition, it is important to remember that despite high leakage and high cost, some of these schemes may nonetheless have been influential in protecting the poor at times of adverse shocks. This is the judgment on some of the schemes introduced in Indonesia at the time of the Crisis of the late 1990's, particularly in relation to health and education initiatives. There is also some evidence from PRC that the regional allocation of poverty funds did benefit recipient counties (although the distribution of benefits within counties is unclear).

What can one conclude then from all of this for targeting policy? Altering the pattern of growth towards sectors with strong employment effects is likely to have the greatest direct impact on poverty reduction. In principle, however, the need to reach the poor directly and to minimize leakage from and under-coverage of poverty programs remains critical. Self-targeting initiatives have

proved only a modest improvement in leakage terms and raise issues of under-coverage. Technical improvements through new poverty mapping techniques, offer a means of more sharply identifying who the poor are, but in the absence of strong governance over poverty schemes, the risk of misuse of funds remains.

Whilst the case for special promotion and protection policies for the poor remains strong, past errors associated with their implementation and design must not be forgotten. In the debates of the 1980s more universal schemes were strongly criticized for their high leakage and their budgetary implications. The more targeted measures of the 1990s have cost more modest amounts relative to the size of government budgets, but their leakage rates have also been disappointingly high leading to high cost effectiveness ratios, in terms of costs per unit of benefit received by the poor. They have also suffered from under-coverage of many of the poor. Both high leakage and under-coverage are serious errors that must be addressed if such funds are to be used effectively.

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