

BASIC QUESTIONNAIRES FOR HOUSEHOLD INTERVIEW

1. Fieldwork carried out by the Operations Evaluation Mission (OEM) used mixed methods to collect data, including in particular many in-depth interviews with a wide range of informants. In addition to consulting many project staff in the Asian Development Bank (ADB), the OEM visited 75 villages in Malaysia, People's Republic of China (PRC), and Viet Nam, and conducted 608 interviews. The interviewees included project implementers in government agencies and financial institutions, field staff working directly with beneficiaries, local governments, village leaders, and ordinary residents in project areas—both poor and not, those who benefited from projects and those who did not. Among the poor, the OEM interviewed not only those that rose out of poverty, but also those that remained in poverty and those that slipped into poverty due to misfortune.

2. Most of the household interviews were carried out in interviewees' houses in the villages or at their workplaces, such as farms, shops, or other enterprises. The interviews aimed to understand

- (i) the life history of the interviewees and their families,
- (ii) their initial conditions,
- (iii) the impacts of specific poverty reduction interventions (including projects financed by ADB) on their selection and implementation of an avenue out of poverty, and
- (iv) the results of the poverty exit and its sustainability.

Specifically, the questionnaires included questions aiming to find out

- (i) if the interviewees were poor or not based on income and non-income dimensions,
- (ii) what their situations were 5–10 years ago and how they had evolved,
- (iii) their current sources of income and household resources (physical, financial, natural, human, and social assets) and their evolution,
- (iv) the context and conditions they faced, and
- (v) the strategies they had implemented to rise from poverty.

3. The actual questions asked in each interview differed because they depended on the issues that emerged in the course of the interview. Nevertheless, the OEM used the following questions to guide each interview and ensure that basic information was obtained.

A. General Family Characteristics

4. How many people are in the household and what are their relationships? How old is each family member? How long have they lived in that house? Where did they reside before? If they migrated from outside the village, where did they live before, when did they move to this village, and why?

B. Initial Conditions and Resources

5. The following questions aimed to learn details about the family's past:

- (i) What were the basic household characteristics in the past (5–10 years ago)? Had they lived somewhere else?
- (ii) What type of capital or assets did the household have? Did they have land? If yes, how large was it and under what type of tenure? What forms of financial assets (cash, savings, and jewelry) did they have? Did they have access to formal or informal credit? What level of education and type of skills did the

- household members have? Were they members of any formal or informal organization? What type of social connections did they have?
- (iii) What were their sources of income? What were the main characteristics of their activities (farming, off-farm activities, wage labor, and migration)? How did they see themselves compared with others in their village? Did they consider themselves poor?

C. Current Conditions and Resources

6. The same questions were asked as above, but about current conditions and resources.

D. Identification of Household Strategies to Rise from Poverty

7. How did the household rise from poverty? In the last 5–10 years, what were the critical strategies that the household members implemented to rise from poverty? Did family members migrate to obtain land or employment somewhere else? Did they diversify their sources of income and, if so, how (e.g., through employment on other farms or away from agriculture)? Did they improve their agricultural production through new crops or technologies?

E. Role of Context, Including Government Policies, Programs, and ADB Projects

8. How did the household identify and implement their strategies to rise from poverty? Did they take advantage of government policies, programs, or projects? In what ways did these government interventions help? Did government interventions provide land or other natural resource assets? Did they provide housing or other physical assets? Did they improve the human capital of the household members by, for example, providing access to health services, education, or training? How did the household members know about the government policies, programs, and projects? How did migrant members of the family, if any, migrate to other places? What were the most critical difficulties that they faced, and how did they cope with them? If any household member belongs to any formal or informal organization, how did the organization help them?

CASE STUDY: VIET NAM
Rural Credit Project (Loan 1457[SF]-VIE)
Rural Infrastructure Sector Project (Loan 1564-VIE)

A. Introduction

1. Selection of the Projects for Case Studies

1. The Rural Credit Project (RCP) and Rural Infrastructure Sector Project (RISP) in Viet Nam were selected as case studies for their poverty reduction objectives and good performance. The RCP was financed by a loan of \$50 million from Asian Development Bank (ADB) to channel subloans to rural borrowers through branches of AgriBank and people's credit funds (PCFs). The RISP was financed by another ADB loan of \$105 million to finance investment in rural roads, markets, irrigation, and water supply systems through the Ministry of Agriculture and Rural Development (MARD). At the time of the fieldwork, both projects had been completed. AgriBank was implementing a follow-up project with ADB,¹ and the ministry was preparing another rural infrastructure project to be financed by ADB.

2. Fieldwork of the Operations Evaluation Mission

2. From 21 April to 19 May 2005, an Operations Evaluation Mission (OEM)² made six trips to Viet Nam in areas under these two projects. During the 1 month of fieldwork, the OEM visited 39 villages in six provinces, including Lang Son in the northeastern mountains, Bac Giang on the outskirts of Red River Delta, Quang Nam in the central region, Tra Vinh on the Mekong River Delta, and, finally, Son La and Dien Bien in the northwestern mountains. In these areas, the OEM visited 21 subprojects, which represented 12% of the 180 subprojects completed under RISP.

3. A second OEM visited Viet Nam from 1 to 16 September 2005 to conduct post-evaluation of the RCP. The OEM visited 12 villages in three provinces, including Dak Lak in the Central Highlands, Phu Yen in the south coastal region, and Dong Nai in the southeast region. In addition to meetings in the central offices of the participating financial institutions (PFIs), the OEM visited 14 of their local branches.

4. To compare areas with and without ADB-financed projects, the OEM interviewed households in control areas, such as villages that had not benefited from the project investment, or areas proposed for infrastructure investment from future ADB projects, where conditions were considered similar to a typical RISP subproject area before the interventions. For the RCP, the OEM interviewed farmers who borrowed from AgriBank or PCFs as well as those who did not borrow.

5. All together, the OEM visited 51 villages in nine provinces in Viet Nam and conducted 299 interviews in addition to meetings in Hanoi with the central Government agencies. The interviews included (i) in-depth interviews³ with 161 rural households (91 men, 55 women, and 15 couples), out of which 33 were poor; (ii) in-depth interviews with eight migrants who had

¹ ADB. 2000. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan and Technical Assistance Grant to the Socialist Republic of Viet Nam on the Rural Enterprise Finance Project*. Manila (Loan 1802-VIE, for \$80 million, approved on 12 December).

² The OEM comprised a senior evaluation specialist from ADB as the mission leader, one international consultant, and two local interpreters.

³ Each of the in-depth interviews lasted from 20 minutes to over 1 hour.

moved from rural areas to cities (including five women); (iii) brief interviews with 30 traders in markets (including 29 women); (iv) detailed discussions with 41 local government officials (one district official, 18 commune officers, 18 village leaders, and four staff—all women—working in commune clinics); (v) interviews with 59 field staff working in rural financial institutes or other government agencies (24 from AgriBank, 18 from PCFs, two from Viet Nam Bank for Social Policies, two from the State Bank of Viet Nam, five from water supply companies, five from irrigation management companies, two from market management offices, and one from a health insurance company). Table A2 provides a list of subprojects and villages visited.

Table A2: List of Subproject and Villages Visited

Province	District	Commune	Village	Subprojects/PFIs
1. Lang Son	Bac Son	Bac Son	Tien Dao I Nao Rao	1. Bacson–Vu Lang–Nga Hai roads
		Ye Binh	Cang Co Quy Xa (hamlet) ^a	
	Van Quan Hun Lung	Quyiet Than	Lang Ray Kep 1 ^b	2. Water supply for six places in five districts 3. Quyiet Than dam and Chien Thang reservoir 4. Lengthening of canals under the Quyiet Than irrigation system
2. Bac Giang	Viet Yien Lang Giang Yen Dung	Hong Thai	Duclien (hamlet)	1. Hong Thai and Bao Son pumping stations 2. Water supply for Kep, Luc Nam, Bich Dong, and Thang towns 3. Ben Tuan–Dong Xuyen road, Viet Tien–Song Van, Cao Thuong–Tan Soi roads 4. Voi Moc market 5. Improvement of canals under Hong Thai–Bao Son pumping stations
		Song Khe	Bac ^b (hamlet) Song Khe ^b	
	Luc Nam	Dong Hung Cuong Son	Quanh (hamlet) Xom Tan Luc ^b	
	Hiep Hoa Thang	Dan Thang	Thang town Hung Thinh	
		Mai Anh	Mai Ha (hamlet)	
3. Quang Nam	Thien Phuoc	Sau Binh Duong	Hoe Thon Nam	1. Road No. 613 in Thanh Binh district 2. Tra My market 3. Road No. 614 and No. 615 4. Tien Phuoc market 5. Phuoc Ha and Ho Giang irrigation schemes
		Tin Cam	Hai No. 2 Tien Cam	
	Que Son Than Binh	Que Thuan Binh Duong	Que Mot Village No. 2 Village No. 5	
	Que Lam	Tien Cam	Lanh An	
4. Tra Vinh	Can Long	Tan Binh	Trao	1. Inter-commune Road No. 2, Cang Long district 2. Inter-commune Road No. 17, Cau Ngang district 3. National Road No. 53, Hiep Thanh, Duyen Hai District 4. Long Huu water supply
	Cau Ngang	Kim Hoa		
		Truong Tho Kim Hoa Vhi Truoy Nhi Truong Long Toan	Ben Chuoi (hamlet)	

Province	District	Commune	Village	Subprojects/PFIs
	Duyen Hai	Long Huu		station
5. Son La	Mai Son	Lot	Naxi	1. Muong Chanh, Chieng Chung, Ta Lai, Muong Khoa and Chieng Di irrigation scheme
		Chieng Chung	Na Si (hamlet)	
			Khoa Ham Ten (hamlet)	
		Chieng Rong	Na Khoang Rie	
6. Dien Bien Phu	Dien Bien Phu	Keo Lom	Tia Ghenh	1. Pom Lot–Na Son road (in Dien Bien District), Thanh Luong–Hua Pe road (in Dien Bien Dong District)
	Dien Bien	Pe Thom Nua Ngam	Ta Let Pasa Lao ^b	2. Then Thau irrigation scheme and nine small irrigation schemes
	Tuan Giao	Chieng Sinh	Cong village Van No. 2 Van No. 1 Van No. 3	3. Pa Thom road, proposed for investment in next phase ^c 4. Xuan Lao irrigation scheme, proposed for investment in next phase (Tuan Giao District) ^c
7. Dak Lak	Krong Ana	Hoa Hiep	Lo 3 Lo 2	1. State Bank Branch, Buon Me Thuot City
	Hoa An Krong Pak	Hoa Khanh Phuoc An	No. 3 Group 1	2. AgriBank Provincial Branch, Buon Me Thuot City 3. Hoa Hiep AgriBank Branch, Krong Ana District 4. Central Credit Fund Branch, Buon Me Thuot City 5. Hoa Khanh People's Credit Fund (PCF), Hoa Khanh Commune, Hoa Khanh District 6. Phuoc An PCF, Phuoc An township, Krongpak District
8. Phu Yen	Tuy An	An Ninh Dong	No. 1	1. AgriBank Provincial Branch, Tuy Hoa City
	Tuy Hoa	Binh Tien Phu Vang	Phuvang No. 9	2. AgriBank District Branch, Tuy An District
	Tay Hoa	Xuan Thanh	Thanh An	3. AgriBank District Branch, Tay Hoa District 4. Viet Nam Bank for Social

Province	District	Commune	Village	Subprojects/PFIs
				Policy Provincial Branch, Tuy Hoa, Phu Yen
9. Dong Nai	Bien Hoa Dinh Quan	Ha Thi Phu Loi Phu Cuong	No. 6 Road 2, group 1 Thong Nhat	<ol style="list-style-type: none"> 1. State Bank Branch, Dong Nai Province 2. AgriBank Provincial Branch of Dong Nai, Bien Hoa City 3. AgriBank Bien Hoa Industrial Zone Branch, Bien Hoa City 4. Dai Loi PCF, Phu Loi Commune, Dinh Quan District 5. Phu Tuc PCF, Phu Cuong Commune, Dinh Quan District

No. = number, PCF = people's credit fund, PFI = participating financial institution.

^a Hamlet is a subunit under a village, counted as village in this report.

^b Nonproject commune or village.

^c Subprojects proposed for next ADB-financed projects, included in the study as control groups.

Source: Operations Evaluation Mission.

B. Results of Poverty Exit

1. Poverty Reduced

6. The OEM was impressed by the significant reduction in rural poverty achieved in Viet Nam in the past 2 decades. In most villages visited, the poverty rate had fallen from 60–80% in the early 1990s to 10–20% at the time of the OEM visit in 2005. Only in some mountainous regions did poverty remained high—up to 57% in a poor commune dominated by ethnic minorities near the border with the Lao People's Democratic Republic. Most interviewees said that their life was much better than it was 5 or 10 years earlier and that they considered themselves no longer poor.

7. The OEM noted, however, that the official poverty line in Viet Nam is low,⁴ and the poverty definition used by interviewees was also narrow. Some interviewees said that they were no longer poor because they no longer suffered from hunger. While some households still encountered food shortages for 2–3 months in a bad year, they borrowed from others and repaid after the rice harvest, or they covered the food shortage by working as day laborers. They said this was a big improvement over the past, when they could not borrow because most households in their villages were also poor, and they could not find wage employment, so they had to dig up wild plants in the woods to survive. These interviewees used hunger as a major indicator of poverty, which had been eradicated in the villages visited.

8. Housing conditions are another indicator, albeit less accurate. Within the same village, poor households tend to have poorer houses compared with the better off, but this indicator

⁴ The official poverty line in Viet Nam increased substantially in August 2005 from Đ100,000 (\$6.3) to Đ200,000 (\$12.6) per person per month for rural areas and from Đ150,000 (\$9.5) to Đ260,000 (\$16.5) per person per month for urban areas (General Statistics Office of Viet Nam).

varies by region. In some mountain villages visited, almost all households, including the poor, lived in wooden or concrete houses. In some villages located in lowlands (such as Tra Vinh), the OEM observed better-off families living in thatched houses, reportedly by preference. Improved living standards were also reflected by more varied and better food, more clothes, better furniture, and television and motorcycle ownership.

9. While most interviewees have risen from poverty (by both their own definition and official poverty lines), the OEM visited households that remained poor. Some said that their life had improved little or not at all. These often included households headed by women, with many young children, and of young couples recently separated from their parents with little farmland. Young couples usually had young kids, which made it difficult for the parents to migrate or search for off-farm employment outside their villages. These couples had farms too small to support a family of four (a couple and two kids) living on agriculture (para. 16).

2. Sustainability of Poverty Exit

10. While most interviewees had risen from poverty, the sustainability of their non-poor status remained a major concern for two reasons. First, the poverty definition is narrow and, in the areas visited, many rural households seemed to be near poor. Many interviewees considered themselves average because they did not officially qualify as being poor. According to the definition used by various government poverty reduction programs, poor households are those that have been voted as poor by village assemblies using the poverty line defined by the Government (footnote 4). These families usually had little or no land, little furniture, no large animals (pigs, cows, or buffaloes), and extremely poor housing. Households officially designated as poor received government assistance such as free health services and exemption from school fees. In almost all areas visited, commune heads and village leaders were able to say precisely how many households were in their communes or villages and precisely how many of them were poor, reflecting a high awareness of officially defined poverty. In sharp contrast, when the OEM asked how many households in their villages were better off, a typical answer was that no one was better off, as everyone was average except for the poor. This observation seems to be consistent with official statistics. In 2003, the nationwide \$1-a-day poverty index using purchasing power parity was 10.6%, and the \$2-a-day poverty was 53.4%.⁵

11. Second, the OEM found that a high proportion of the households interviewed were vulnerable to slipping back into poverty, and this issue has not received sufficient attention. So far, most government efforts have focused on reducing remaining poverty and paid much less attention to dealing with household vulnerability. The OEM interviewed some households that had become poor due to misfortune and identified the following shocks as threats to the sustainability of poverty exit. The first threat was serious illness of family members. When a household member suffered a one-time illness or accident, the cost to the family was usually a high medical bill and related expenses. The OEM found that, in such cases, most households could recover by themselves by working harder and reducing consumption, if they had timely access to credit at affordable cost, such as commercial interest rates instead of the high rates that moneylenders charge, and if the credit was of long maturity so that they had sufficient time to recover. In the case of repeated or chronic sickness, such as a kidney problem, however, some households reverted to poverty as high debts built up. The OEM interviewed households that had sold animals and farmland to repay their debts and became landless poor, but these cases were few in the villages visited.

⁵ Viet Nam Development Report. 2004: Poverty. Joint donor report presented at the Viet Nam Consultative Group Meeting, Hanoi, December 2003. www.worldbank.org.vn/news/VDR04%20Poverty.pdf, page 15.

12. A more common cause of household vulnerability was investment failure resulting from (i) animal deaths due to disease, (ii) price fluctuations, and (iii) natural disasters. Animal deaths, reported by many households interviewed, were due primarily to epidemic outbreaks that affected ducks, chickens, pigs, cows, fish, and prawns. In one village in Tra Vinh, a man said that he became poor after four instances of investment failure, losing 500–600 ducks each time to an epidemic outbreak. He sold land to repay the loan he had taken to make the duck investment. In Quang Nam, one woman said that she no longer dared to raise pigs after the repeated death of her pigs. In that area, the OEM was told that animal diseases were common during floods in the rainy season. While large animals such as pigs and cows could survive if vaccinated in time, there was little preventive treatment for poultry in the areas visited. In Tra Vinh, outbreaks of prawn disease were cited as the most serious threat—much worse than the frequent price fluctuations. As one interviewee put it: “You may become rich quickly by investing in prawn farming. But you may become poor after three investment failures.”

13. Price fluctuations affected mostly untraditional agriculture, defined in this report as new varieties of crops, fruits, animals, or other farm commodities newly introduced to an area. Cases observed included the fruit trees litchi and longan, a new variety of prawn introduced in the areas visited in Tra Vinh, and coffee in the Central Highlands. In Bac Giang, the OEM was told that litchi prices fell by 90%, from Đ15,000–Đ16,000/kilogram (kg) in the peak years of 1995–1999 to Đ1,500 in 2002–2005. One migrant interviewed in Ho Chi Minh (HCM) City said that he was encouraged by the high price of longan (Đ6,000/kg) in 2000 and borrowed Đ20 million from AgriBank to plant longan trees. As the longan price fell by two-thirds, to Đ2,000, in 2004–2005, he lost Đ5 million in 1 year. He borrowed Đ20 million from a moneylender to repay the AgriBank loan, which was due at that time without the possibility of extension. He paid the moneylender Đ120,000 per day for 3 days and took from AgriBank a second loan of Đ20 million to repay the moneylender. At the time of the interview, he was still Đ20 million in debt to AgriBank. He migrated to HCM City and relied on the long-distance fruit trade to repay the debt.

14. In areas visited in Dak Lak, a coffee-producing province in the Central Highlands, the high price of coffee in the early 1990s attracted numerous migrants from all over the country. As coffee production increased sharply by 90% in that area, its price fell from Đ40,000–Đ45,000/kg in the peak years of 1995–1996 to Đ4,000/kg in 2001, far below its breakeven level of Đ11,000–Đ12,000/kg. As a result, many farmers suffered losses and were unable to repay their loans to AgriBank. While most farmers survived the crisis with assistance from the Government,⁶ some failed to manage it, especially those who had invested in coffee after its peak years and therefore had not accumulated savings from coffee profits before the crisis. Some of them cut down coffee trees and shifted to growing maize.

15. Many visited villages suffered from natural disasters, including droughts, floods, tornados, and storms. Some mountain villages also experienced hail and frost. When serious disasters occurred, the Government provided free assistance, such as a grant of Đ1 million (\$65) for families whose houses were completely destroyed by a tornado in 2004, and Đ500,000 for those whose roofs were destroyed. However, not all losses were covered by government assistance. In one mountain village in Dien Bien, the OEM was told that 14 households had become poor after their lands were buried by landslides caused by a severe storm. That village

⁶ With the help of a Government-backed rescue package involving a moratorium on principal and interest payments for a period of 3 years, most borrowers were able to continue their coffee operations. According to the AgriBank branches visited, most outstanding loans for coffee had been repaid by the end of 2004, following a rise in coffee prices to above breakeven levels.

was small, with only 101 households. Although the village head persuaded some families to contribute about 100 square meters (m²) each, each of the 14 families received only 300–400 m² of land, which was too small to support a family by agriculture.

16. Finally, another major factor determining the sustainability of a family's rise from poverty are the employment prospects of its rising generation. In most villages visited, with a few exceptions, farmland was distributed equally to all households in the early 1990s. The land allocated to each family was tiny—500 m² per capita of lowland in villages visited in Lang Son and Bac Giang; 250–300 m² in villages in Son La and Dien Bien, and the worst case of only 160 m² in a mountain village in Dien Bien. Since the early 1990s, there has been no more additional land for distribution. Thus, if the grown children of a family remain in the village and rely on agriculture, they would receive an even smaller plot of land from their parents. In some villages visited, young couples were among the poorest if they did not have the chance to migrate or obtain off-farm employment. In these areas, the OEM observed widespread cultivation of maize and cassava on steep slopes, some as steep as 45 degrees, and was told that soil degradation was a serious problem, threatening the sustainability of the natural resource base.

17. Most families understood very well the critical need that the rising generation leave agriculture. Many interviewees, including the poor, expressed their strong willingness to invest in their children's education. When asked how far, a common answer was that they would support their children in school as far as they could go. Unfortunately, the OEM observed many cases of school dropouts. The young migrants interviewed in HCM City said that dropout rates in their high schools were as high as 50%, largely due to parents' financial difficulties. In one mountain village, whose secondary school is located in the district town about 30 km away, the OEM was told that no poor household in the village could afford the cost of supporting one student in secondary school. While poor families enjoyed 50–100% exemption from school fees, other costs, including uniforms and school boarding expenses, were too heavy a burden on them.

C. Poverty Exit Strategies

18. The OEM observed significant variation in the poverty-exit strategies adopted by households. These closely related to regional disparities, which affected the options available to rural households.

19. **Agricultural Intensification.** Many interviewees adopted this strategy, including (i) adopting improved crop varieties, (ii) increased use of pesticides and fertilizer, and (iii) investment in irrigation to enable a second rice crop each year. Utilization of improved rice and maize seed was reported by many households. The seed was provided by government agencies and reportedly contributed to better production. Among the measures above, irrigation had the largest impact because sufficient water supply was the most important condition for high and stable yields. It was also a condition for effective utilization of fertilizer because the impact of fertilizer is marginal without water. In a number of cases, the OEM observed irrigation investments by private households or communities. In Lang Son, the OEM visited a village without an ADB project but located next to an irrigation system rehabilitated by the ADB-financed RISP. This village did not benefit from the RISP because its farmlands were higher than the irrigation canal, but some households used pumps purchased at their own expense for irrigation, which enabled them to intensify rice production from single to double cropping. In Bac Giang, the OEM found two cases where village leaders took loans and invested in small pump stations. Later, they sold village-owned land to repay the loans. These village investments were

supported by the farmers interviewed because they allowed a significant increase in rice production.

20. The importance of irrigation, however, did not guarantee significant impact from any particular irrigation project. The OEM found that the real impact of irrigation subprojects varied significantly among the cases studied, depending on the capacity of the water source in the dry season as well as the reliability of operation and maintenance (O&M) funds after project completion. In some cases studied, the impact of the irrigation subprojects seemed to be marginal for two reasons. First, the capacity of the water source was small, and the irrigation subprojects mainly benefited farmlands next to the irrigation canals, which accounted for only a small portion of the farmland in the villages.⁷ Due to insufficient water in the dry season, many farmlands did not receive sufficient water even after the irrigation investment. Second, while the small area of farmland that received water realized significant yield increases in terms of percentage, the absolute amount of the rice increment per household was small largely because of the tiny area of lowland available per household. In these cases, the OEM asked beneficiaries if they would have been willing to pay for the irrigation investment if the subprojects had not been free to them, and the answer was no.

21. **Agricultural Diversification.** Compared with intensification, agricultural diversification played a more important role in poverty exit, having been adopted by a larger portion of the households interviewed. The OEM found that, to a certain degree, this strategy was a result of farming according to household resources available rather than preference. For example, in mountainous Son La and Dien Bien, lowlands suitable for rice production were extremely limited, so farmers had no choice but to cultivate maize and cassava on steep slopes, though they preferred rice. In the sand belt in Quang Nam, farmers grew peanuts and sesame because the sandy land was not suitable for rice. In a village in semi-mountainous Quang Nam, households grew rice on tiny plots of lowland, planted ginger and fruit on the uplands, raised animals, and collected forest products. In these cases, diversification was a response to context, village traditions, and family resources. In Bac Giang, the OEM visited a village with high population density and a tradition of conducting petty trade, where many farmers were part-time traders. In one village located in a lowland area, almost all families were engaged in the traditional activity of making baskets for harvesting shrimp. One household ran multiple businesses, including rice, tobacco, pigs, chickens, a small rice mill, a tiny winery, and a small shop that earned less than \$1 per day.

22. **Untraditional Agriculture.** This strategy was usually adopted by a few aggressive farmers with great success and then followed by many others who did not have the same fortune. In Bac Giang, a farmer invested in litchi trees in the early 1990s and received sizeable profit during the peak years when few people produced litchi and its price was up to Đ16,000/kg. Sharply reduced litchi prices in the early 2000s (para. 13) brought big losses for the latecomers who planted litchi trees at the end of the 1990s. When a new variety of prawn was introduced in Tra Vinh in the 1990s, some households became rich from it, but others failed because they were unable to manage price fluctuations or the frequent outbreak of prawn disease. A similar

⁷ In Bac Giang Province, for example, an irrigation subproject reportedly increased the system's command area from 180 ha to 250 ha. In an upstream village that benefited from that subproject, the OEM found that only 4 out of the 42 ha (less than 10%) of paddies had actually benefited from the subproject. Land in that village—both irrigated and not—was distributed equally to all households. In two households visited, two-fifths of their land received water with or without this ADB-financed project, and another two-fifths did not receive water with or without the project. Only the remaining one-fifth received water as a result of the project, enabling rice production to increase from one to two crops per year. The increment in production was small, about 100 kg of rice for each household. In 2004, there was no increment in rice production because the land did not receive sufficient water.

case was the boom of coffee production in the Central Highlands, where the early investors earned sizable profits and the latecomers suffered losses due to sharply reduced coffee prices.

23. **Off-Farm Employment.** The availability of off-farm employment varied significantly across the regions visited, reflecting village traditions as well as the conditions surrounding rural households. In mountainous Lang Son, the only off-farm employment available was carrying wood as porters. In the lowlands of Bac Giang and Quang Nam, many rural households engaged in trade on a tiny scale in local markets. In Tra Vinh, booming prawn farming increased demand for farm labor, with many casual laborers collecting day wages, including landless poor. In the minority-dominated villages of Son La and Dien Bien, interviewees reported almost no off-farm jobs in their villages. Low population density in the remote mountain villages, and the self-sufficient economy—with even cloth made at home using traditional looms—restricted trade and other off-farm employment.

24. **Migration.** This was a common strategy to rise from poverty in the lowlands visited, especially in southern Viet Nam, which was experiencing fast economic growth. In Tra Vinh, many households in the villages visited had family members working in HCM City or other urban centers. Migrants interviewed in HCM City said that almost all young people in their villages had migrated, because there were no jobs at home. In the lowlands visited in Quang Nam, interviewees said that it was easy to find jobs as maids or construction workers in Da Nang, a large city about 60 km from their villages. In the provincial town of Lang Son, day laborers from villages about 15–20 km away came to town early in the morning and waited for employment, which was reportedly increasingly available thanks to a small boom in private house construction as many families received resettlement compensation resulting from a road project. Migration was rarely observed from the mountain villages, however, where even high school graduates returned to farming after leaving school. Interviewees said that they did not know how to migrate because they had little contact with people outside their communes.

25. **Transfers and Remittances.** Remittances did not play a big role in poverty reduction in the areas visited. While migration was common in southern Viet Nam, remittance from migrants was neither significant nor frequent. Due partly to the shortage of jobs for all migrants, and partly to the relatively short history of migration, many migrants had jobs with low salaries, earning barely enough to cover the high urban cost of living. It was said that only young girls regularly sent money home, and only before they got married. They worked as maids with a monthly income of Đ500,000 (\$32) or so. Some sent home Đ400,000 (\$26) monthly because they lived with their employers and had few living expenses. Other remittances were small and limited. A few interviewees received temporary support from relatives in times of difficulty, such as food shortage or sickness. More often, interviewees said that they turned to moneylenders in times of emergency. Transfers from governments was also limited. In a few villages visited, local authorities reported providing free houses to poor households, but far fewer than demanded by eligible applicants. In one commune with 795 poor households, only 100 received free houses. In another village visited, only two households received free houses.

26. **Pluriactivity.** Multiple sources of income were essential to almost all rural households, as no interviewee relied on a single source of income, except those who migrated to cities and worked in factories. The most common mix was crop production, combining lowland rice and upland grains, or animal-husbandry. The latter seemed to be a most common strategy to rise from poverty, especially in areas with little hope of migration and few off-farm employment opportunities.

D. Household Resources

27. Household resources included physical, financial, natural, human, and social capital in the cases studied, and the following factors had significant impact on households' selection of poverty exit strategies.

28. **Farmland.** Almost all households interviewed had a few plots of farmland. Their total area, however, was too small to support a family relying on agriculture without off-farm income. In most villages visited, farmland was distributed to all households in the village on a per capita basis in the early 1990s following the policy reform in 1986. Since then, no land has been distributed to the rising generation because no additional land exists. In many cases, grown children received only a small plot land from their parents after marriage, as the household's original land allotment was simply divided. While the area of upland was large in some mountain villages visited, land without water had low value and productivity. Some interviewees with relatively large areas of upland remained poor.

29. **Houses.** All interviewees—both poor and not—had houses, though of varying size and quality. While the size and quality of houses reflected living standards, they were more the result of poverty rather than its cause. The OEM observed many new houses built by households after they had risen from poverty and become better off.

30. **Equipment.** Only a few families owned farm machinery such as small milling equipment, probably because of the tiny size of subsistence farms visited. More common were motorcycles, seemingly the most common transportation mode in both urban and rural Viet Nam. In many villages visited, motorcycles were used in trade. In some remote villages, high school students went to school by motorcycle.

31. **Farm Animals.** Animals were common in the villages visited. In areas short of farmland and with little off-farm employment, cattle and buffalo rearing was the most common strategy for rising from poverty, and most interviewees had one or two large animals. Interviewees reported, however, that expanding animal production was constrained by insufficient resources such as grasslands. Animals were a common form of household savings that could be sold to meet emergency needs such as medical expenses. The distress sale of animals brought losses to some households due to low prices at less-than-optimal times of sale, especially when the animals were still small.

32. **Savings and Other Financial Assets.** Few households interviewed kept savings account in banks or PCFs except for large traders or shop owners. Many interviewees said they had no savings or other financial assets. In a few cases, the OEM found that households bought jewelry as savings. Finally, some better-off farmers said they used spare money for lending to others instead of depositing it in banks. Several factors seemed to underlie the seeming lack of demand for bank deposit services in the rural areas visited, including (i) insufficient public confidence in banks, (ii) a shortage of cash in many rural households, and more importantly, (iii) farmers' lack of ready access to formal credit when needed, especially in times of emergency. That is why some interviewees preferred to lend their extra money to others than put it in banks.

33. **Household Size and Demographic Features.** This seemed to be a key determinant of rural poverty in the areas visited. Having a lot of children⁸ was cited by many interviewees as a factor contributing to poverty, as young children prevented parents from migrating or searching for off-farm employment away from the village, and children's education means heavy costs to cover school fees, uniforms, and boarding expenses. Finally, grown children demanded land from parents, resulting in less land per household for parents and children alike if children remained in the village and relied on agriculture. When the OEM asked about the impact of migration, most interviewees said its best feature was allowing grown children to take care of themselves without demanding land from their parents.

34. **Human Capital.** The OEM found that aspects of human capital important to poverty exit included not only the physical health of family members but also their schooling, skills, and personal characteristics. The combination of these factors defined a household's labor assets. In the cases studied, substantial disparities existed in the lowlands regarding schooling, unlike in mountain villages, especially those dominated by ethnic groups, where little schooling was the rule. In the lowlands visited, most adults, both men and women, finished at least elementary school, and many completed the 9 years of compulsory education. In the minority-dominated villages, however, the illiteracy rate was high, especially among women. Many men had only 2–3 years of education, and most women and some older men did not speak mainstream Vietnamese, or Kinh.

35. The OEM found that, for formal employment such as in government offices or foreign-invested factories, formal schooling was crucial, because the minimum requirement for these jobs was graduation from junior high school, or 9 years of schooling. Graduating from senior high schools (12 years of schooling) may provide access to better-paid jobs initially and better chances of promotion later. For informal employment or self-employment, such as farming, trade, construction, housework, and other services, a high-school education did not seem to make a big difference. A more important factor determining the success or failure of informal employment seemed to be personal characteristics. While almost all interviewees worked hard, their different capacities for managing risk and uncertainty seemed to underlie their success or failure in self-employment or finding off-farm jobs.

36. **Social Capital.** For migration, social capital, especially connections in cities, seemed to be most crucial. In the lowlands visited, such as Bac Giang, Quang Nam, Tra Vinh, Fu Yen, and Dong Nai, migration was relatively easy because many rural households had relatives, friends, or other fellow-villagers working in HCM City, Hanoi, Da Nang, or other towns and cities. It was reported that these social connections provided information about job openings and offered temporary housing for new migrants during their initially days in cities, thereby reducing the cost and risk associated with migration and job hunting. In contrast, many interviewees in mountain villages said that no one had migrated from their villages. The lack of social connections seemed to have discouraged migration from those areas.

⁸ While most households interviewed had four members (a couple and two kids), the OEM visited families with 5–6 children in a few cases. In mountain villages dominated by ethnic minorities, the OEM observed large families of up to 14 members, with 3–4 generations living in the same house.

E. Context and Conditions

37. Context and conditions influenced options available for poverty exit in a particular area and affected households' selection of poverty-exit strategies.

38. **History and Culture.** The OEM found in the cases studied that the most important factor in history and culture was village tradition, which varied significantly across regions. In lowlands with high population density, many villages had a tradition of trade, handicrafts, or migration to urban areas. These traditions were absent in the villages visited in remote mountainous areas, where most interviewees said that they did not know how to make a living other than by farming. In areas dominated by ethnic minorities, the OEM found extremely low levels of education in both children and adults, especially among females, the underlying causes being cultures that little value education and the language barrier, as schools were taught in Kinh, which was difficult for minorities. In conjunction with topography, the language barrier contributed to isolating households in remote mountain villages and made it more difficult for them to search for off-farm employment outside their region.

39. **Gender.** In the lowland areas visited, men and women appeared to play equal roles in family decisions. During interviews, women often more actively answered questions than men, reflecting their full knowledge of family business and confidence in household management. In the minority-dominated mountain villages, however, men usually dominated conversation during the interviews, while women sat outside the room. This might have been partly due to the language barrier, because many minority women did not speak fluent Kinh due to their lack of education. In a few cases when the minority women spoke Kinh, they actively answered questions.

40. **Government Policies.** Policy reforms have played key roles in reducing poverty in rural Viet Nam in the past 2 decades. The most important reforms have included the following:

- (i) The program of *Doi Moi* (literally “change and newness”) in 1986 marked the start of the transition from central planning to a market economy.
- (ii) Resolution 10 of the 1988 land law granted land-use rights to individual households with 15 years of secure tenure and automatic renewal. After that, agricultural markets were liberalized, and investment decisions were left to households. As a result, agricultural production increased rapidly after 1988, and Viet Nam went from being a net rice importer to the world's second largest rice exporter.
- (iii) The 1993 land law granted to households the right to transfer, exchange, inherit, rent, and mortgage land. The land law was implemented by issuing land-use certificates, alternatively known as land tenure certificates or red books, which greatly facilitated rural lending.
- (iv) A new policy in 1989 that allowed individual households to borrow from AgriBank. This was cited by the AgriBank branches visited as a major factor contributing to the 20–30% growth per annum in rural lending over the past decade. The OEM noted that the increased supply of rural credit, and easy access to it for most rural households, played a key role in enabling self-employment, including in particular livestock rearing, which was what many interviewees used as an avenue out of poverty.

41. **Macroeconomic Growth.** Economic growth in urban areas, including in particular foreign direct investment (FDI) in HCM City, played a critical role in reducing rural poverty by creating many jobs for young migrants from rural areas. National economic growth did not,

however, seem to facilitate poverty exit in the mountain villages visited, where few people, even those with a high-school education, migrated to urban areas, apparently for lack of social connections in cities.

42. **Local Economic Growth.** Economic growth in provincial or district towns provided employment for households in nearby villages, though on a limited scale in the areas visited. Many households living within 3–5 km of towns engaged in marketing and trade. Some young males living in villages within 15–20 km of towns commuted to them early in the morning to wait for day labor. In the villages visited in Quang Nam, many farmers, both women and men, went to Da Nang, a large city about 60 km from their villages, to work as maids or in construction. In addition, many households had family members who seasonally migrated to provincial or district towns for temporary construction work. The impact of local growth, however, seemed to be marginal in mountainous regions, which remained unattractive to private investors even with good roads, due probably to the high cost of conducting commerce in remote areas.

43. **Geographic Location and Topography.** The geographic location and topography of a village played a crucial role in determining the options available for households' rise from poverty. In the lowlands visited, many households adopted multiple strategies, including (i) agricultural diversification, growing, for example, rice, coarse grains, tobacco, peanuts, fruit, as well as engaging in animal husbandry and aquaculture; (ii) off-farm employment such as trade and day labor, and (iii) migration to urban areas. As in the mountain villages, farming in the lowlands was restricted by the shortage of arable land per capita. However, households in the lowlands engaged in more off-farm activities made possible by higher population density; proximity to cities; quick, easy, and low-cost travel to commercial centers; and, more importantly, access to formal and informal urban jobs in manufacturing, construction, housekeeping, and other sectors. These options were largely unavailable to rural households living in remote mountain villages. In the mountainous areas visited in Lang Son, Son La, and Dien Bien, the OEM found little private investment. The good roads from Hanoi to the capitals of these provinces had very little traffic.

44. **Infrastructure.** The impact of good roads is manifested in the lowlands, where investment in national highways attracted FDI and other private investors. The expansion of industrial zones created thousands of jobs for the youth migrating from rural areas. The infrastructure in mountainous areas, such as the good roads from Hanoi to Lang Son, Son La, and Diem Biem did not seem to have had the same impact. Despite the roads' good quality, the mountainous regions remained unattractive to private investors, apparently because of their low population density and limited commercial activity.

45. **Population Density and Local Markets.** One major disadvantage in the mountainous regions was their low population density, which meant small local markets and little trade. Most visited households were largely self-sufficient, with little farm surplus to sell or cash to spend. In minority-dominated villages, the OEM observed households using traditional looms to make cloth, primarily for family use. The lack of marketing and trade reinforced the isolation of mountain people, who lived by subsistent farming.

46. **Access to Education.** While education is available to all citizens in Viet Nam, the cost of education and the location of schools restricted poor households' access to secondary education in some villages visited. While government policies exempted poor households from school fees, other costs, especially uniforms and boarding expenses, remained a heavy burden on poor parents. In a remote commune where a secondary school was located in the district town about 30 km away, high boarding costs kept poor parents from sending their children,

making secondary education a luxury affordable to only the better-off families (one family reportedly paying Đ5 million, or \$320, per year for their son's attendance in that school). In other cases, the OEM was told that dropout rate was high among senior high school students from rural areas, largely because of their parents' financial difficulties. In the minority-dominated areas visited, the OEM found high dropout rates even in primary schools. In one female-headed household, the OEM found a girl of 14 years in grade 4 whose younger sister, aged 9, had never been to school. At the time of the interview, the mother was planning to have the older daughter drop out of school to allow the younger one to go, because she could not afford to send both girls to school.

47. **Access to Health Services.** Health service cards were issued to poor households and households living in poor communes in the areas visited. Card holders were entitled to health services free of charge. In many cases, the OEM found that this policy had positive impacts, as the cards served as free health insurance and thereby reduced the cost of medical services for the poor. However, the policy was far from being a comprehensive safety net for the poor, because certain medicines and services—such as treatment following traffic accidents, expensive operations, and, in some communes, hospitalization—were not covered. Some poor households said that they used private doctors instead of government clinics even when they had free medical cards because their sick patients could not stand the 3–4 hours of waiting time to be treated. Some said they bought medicines at their own expense instead of using the free services from government clinics, even when they had the medical cards, to get better quality. In one case, a kidney patient said he paid Đ600,000 (\$40) to get treatment from a private doctor instead of using his free medical card because he could not afford the time for the long process of getting treatment approvals from village, commune, and district authorities. Finally, the actual implementation of this policy was restricted by the budgetary resources available to particular communes. In one poor commune visited, though all households were entitled to free health services, the commune had a monthly budget for health services of only Đ40 million (\$2,580), which was allocated on the basis of Đ10,000 (\$0.65) per capita per month. As a result, restrictions on demand were imposed. The first visit to the commune clinic was free, along with 5 days' worth of medicine, but subsequent visits and medicine supplies had to be paid for. In many other cases, the OEM was told that poor households borrowed from relatives and moneylenders to pay medical expenses that were not covered by the medical cards. In one case, while a patient was hospitalized free of charge, her family had to borrow from moneylenders to pay for moving the patient from the village to the district hospital, as well as for the food and lodging for a daughter who stayed in the hospital to take care of the patient. In two cases, households became poor as high debts piled up after borrowing from moneylenders to pay medical and associated expenses. One female-headed household sold land to repay the debt after her mother was hospitalized. Another poor interviewee said that, as he could not afford to send his wife to hospital when she was serious ill, she stayed in bed for almost a month before recovering by herself. He said that no one would lend him money because he already had high debts.

48. **Access to Credit.** In the areas visited in northern Viet Nam, the OEM was impressed by farmers' easy access to unsubsidized loans from AgriBank, which made loan application and approval simple, easy, and relatively quick for most rural residents. Most of the interviewees had taken loans from AgriBank or other PFIs, such as PCF or the Viet Nam Bank for Social Policies (VBSP). Most of the loans were used for animal rearing, which helped many families rise from poverty. The loan processing time was reportedly short, ranging from 3–5 days in the best cases to 2 months in the worst, with most interviewees reporting a period of 10 days or 2 weeks. Most borrowers used their land-use certificates, or red books, as collateral, which were kept by the PFI until the loans were fully repaid. A shortage of credit remained common, however, in the

central and southern areas visited, where demand for large and longer-term loans was high due to the prevalence of commercial farms growing coffee, sugarcane, and fruit.

49. The repayment rate was high at 95% or above, according to both loan officers and borrowers interviewed. This finding from the grassroots was consistent with nationwide statistics provided by AgriBank's headquarters in Hanoi. The good performance seemed to be attributable to multiple factors. First, commercial lending in Viet Nam, unlike the subsidized loans under some poverty reduction projects run by governments and funding agencies, was collateralized with red books, which provided borrowers with a strong incentive to repay loans, because they would not have access to new loans until they fully repaid their current loans and got back their red books. Second, local authorities were strong in rural Viet Nam, which provided strong support for rural lending by government banks. Finally, semi-official organizations, such as farmers' and women's associations, often facilitated rural lending, especially in government lending programs for the poor (paras. 59–60).

50. In spite of the achievements above, the OEM found the following weaknesses in current rural lending in the areas visited. First, due to a shortage of long-term funds, the AgriBank branches visited restricted demand for long-term loans by setting maximum lending terms, such as 12 months for short-term loans and 3 years for medium-term loans, with no provision for loans longer than 3 years.⁹ Since many farmers took AgriBank loans for animal rearing, they said that the best term for them would be 5–6 years: 2 years to raise a calf to maturity, another 2 years for the cow to produce a calf, and 2 more years to raise the calf so they could sell it as a big cow for a good return. Since AgriBank did not provide long-term lending, some borrowers agreed to take a short- or medium-term loan and requested an extension at the end of the loan period. In many cases, AgriBank permitted extensions for periods not exceeding half of the original term. To cope with this problem, a number of interviewees said that they borrowed from a moneylender at high interest to repay their loan to AgriBank and then took a second loan from AgriBank to repay the moneylender. Such transactions wasted money and time but enabled borrowers to effectively extend loans to continue their businesses. If AgriBank, after assessing a client's capacity to repay, granted him or her the second loan, it might have been better if AgriBank had allowed him or her to extend the loan for as long as the reassessment demonstrated good repayment capacity and low risk of default.

51. Second, the OEM observed a lack of flexibility in actual lending practice in some cases. In Bac Giang, some borrowers reported a ceiling of Đ5 million (\$320) for the first loan. In Quang Nam, a ceiling of Đ4 million (\$260) was imposed on loans for trading activities. These loans were considered too small to be useful by the interviewees. In some cases, borrowers were told to pay interest charges either by the month or by the quarter, which discouraged some farmers from borrowing, because they did not have monthly or quarterly income to meet the payment requirement. They said that, since they borrowed for animal rearing, they could repay all interest charges and principal at the end of the loan period when they sold the animal. This option was not allowed in many cases interviewed, though this practice might not represent a formal policy of AgriBank. In the villages visited in Phu Yen, borrowers enjoyed flexibility in loan repayment, permitted to repay any amount of principal and interest at any time on or before the due date.

⁹ The only exception was subsidized loans from VBSP, which used government or funding agency funds to run lending programs for the poor, including loans with a maturity of 5 years. The supply of the subsidized loans, however, was limited. At the time of the OEM visit, VBSP covered only 6% of the formal credit market in rural Viet Nam.

52. Third, group lending was imposed in some remote areas visited, where borrowers were required to form a group of 5–20 members to gain access to loans from AgriBank or VBSP. According to the loan officers interviewed, the primary benefit of group lending was low administrative costs to AgriBank, because the group leader would collect monthly or quarterly interest payments from all members and submit the payments to a loan officer (loan officers interviewed strongly preferred group lending). Group lending also imposed strong peer pressure for borrowers to repay, because group leaders and other members were held accountable for default by any member. While some weak members appreciated group lending, the OEM noted complaints from some strong borrowers, who said that the long time needed to form a group, up to 2 months in some cases, meant missing the best business opportunities and reduced the usefulness of the loans. Combined liability also discouraged them from participating in group lending.

53. Fourth, the OEM observed unmet demand for credit for education and emergencies. The OEM noted that many households, including the poor, would like to invest in their children's education for as far as the children can go. These parents understood the importance of education for the young generation's access to formal employment, which was their hope for a permanent exit from poverty. They were, however, constrained by their inability to cover high school-related costs. As some good students may find, after graduating from high school, formal employment, as in foreign-invested factories, long-term loans to parents to enable education investment for children may effectively and sustainably reduce rural poverty.

54. Lending for emergencies was another area not served by formal financial institutions. When asked about their coping strategies in times of emergency, most interviewees said that their options were to (i) sell animals, even with less-than-optimal timing and at depressed prices; (ii) borrow from relatives and friends without interest but with limited loan size; and (iii) borrow from moneylenders at high interest. The last option was typically used when the first two options were eliminated. The OEM interviewed households who sold land at depressed prices¹⁰ to repay the high debts that had accumulated quickly after borrowing from moneylenders. While borrowers clearly knew the high cost and risk of borrowing from moneylenders, they had no other choice because moneylenders were the only source of money available on the spot or within a same day, conveniently in a same village, and offering maximum flexibility, with no restriction on loan size or maturity and repayable in any amount at any time.

55. The OEM found that borrowing from moneylenders was common in many villages visited. Households borrowed frequently and repeatedly for various purposes—for food in times of food shortage, emergency medical payments, and repaying loans from AgriBank when no further extension was allowed. Moneylenders were better-off households in the villages, or farmers who had recently sold cows or buffaloes and therefore had extra money. In a few cases, even loans from friends and relatives were at a monthly interest rate of 2–3% if the loans were long term. To a certain degree, informal lending from moneylenders provided the safety net of last resort for rural households, albeit at a high price for borrowers. In one village, the OEM found that the interest rates charged by moneylenders were only slightly above the commercial rates charged by AgriBank and PCFs largely because of stiff competition among the numerous moneylenders in that area (para. 62).

56. Finally, subsidized loans to poor households were provided mainly by VBSP but also by AgriBank in some cases under special programs financed by funding agencies. Lending rates

¹⁰ While the land price was about Đ4 million per 1,000 m² in many areas visited, a number of poor households interviewed in Tra Vinh said that they sold land for Đ2 million per 1,000 m² under time pressure.

were 0.45% or 0.50% per month under these programs, compared with commercial rates of 1.15% per month from AgriBank and 1.35% from PCFs. The OEM observed a mixed performance from lending programs for the poor. In some cases, the repayment rate was reportedly high due to careful loan appraisal by loan officers as well as strong support from local authorities, which put heavy pressure on borrowers to repay loans. In these cases, the subsidized loans without collateral enabled poor households to raise cows, pigs, or buffaloes, contributing to their climb from poverty. The OEM observed cases where borrowers repaid the subsidized loans, rose from poverty, and continued livestock production using their own savings. In other cases, however, the OEM observed significant leakage of the subsidized loans to the non-poor, including village leaders. In a few cases, repayment rates were poor, and the farmers' and women's associations that had been involved in the lending programs collapsed. Borrowers no longer had access to formal credit due to their bad debts.

57. **Local Institutions.** In the areas visited in rural Viet Nam, local authorities were powerful, especially the chairmen of the people's committees of communes and the village leaders. The commune is the lowest level of government in rural Viet Nam; village leaders are elected by villagers and receive a monthly allowance from the government. In the cases studied, village leaders played a key role in identifying poor households based on criteria set by government programs. The identification process involved several steps, including self-assessment by all households, checks and confirmation by village leaders, and approval votes by village assemblies. Finally, village leaders submitted to communes a list of households qualified to be labeled poor. After approval by commune and district authorities, the officially identified poor would receive a poor household certificate and health service card, which entitled them to free schooling and health services. Poor households were identified yearly, with the process taking more than 3 months in some cases observed.

58. Most interviewees said that the most powerful person in their village was the village head, who connected villagers to various government agencies, explaining to them government policies and defending village interests when necessary. In two non-project villages, the OEM observed cases in which village heads took loans to invest in village infrastructure with strong support from villagers (para. 19).

59. Local authorities played an active role in facilitating rural lending by AgriBank and VBSP. First, all borrowers had to submit to banks an official permit issued by their commune authorities to officially confirm their permanent residence in the communes. This simple procedure reduced the risk of borrowers running away without fully repaying their loans. The OEM was told that no farmer could afford to offend local authorities, because they needed official help to receive certificates for free schooling and medical care and permits for other needs as well, such as migrating to urban areas. Second, village leaders played a key role in urging households to pay irrigation fees and interest charges and repay loans. In one village, however, the OEM observed how the excessive power of local authorities can do harm. A village head and a commune officer forced a poor household to take subsidized loans for them when the poor needed their permit to borrow from the subsidized lending program. In the end, the officers failed to repay the loans due to investment failure, making the poor bear the bad debt and lose future access to formal credit.

60. In all villages visited, the Government supported identical mass organizations such as associations of farmers, women, veterans, and youth, as well as fathers' foundations. Farmers' and women's associations were active in lending programs for the poor run by AgriBank and VBSP. They identified poor households, recommended borrowers, facilitated the formation of borrower groups, helped people fill in application forms, channeled loans to borrowers, and

collected interest payments from borrowers. In some cases, the associations received a commission of 3% of the interest payments they collected. The role of these organizations was minimal in AgriBank's commercial lending, though some loan officers consulted them when they needed information about specific borrowers.

61. PCFs were supported by the Government and operated only in populous areas near towns. In Tra Vinh, the OEM visited a PCF located in a district town. The PCF was formed by 17 traders and large farmers and had about 100 savers and 790 borrowers. Most of the savers were traders or better-off farmers, while the borrowers were low-income households in towns as well as farmers in nearby villages. The savers used the PCF to gain high returns for their spare money, and the borrowers appreciated the quick and easy access to loans, albeit at a monthly interest rate of 1.35%, higher than AgriBank's 1.15%.

62. The OEM did not find active informal institutions in most villages visited, probably due to the existence of strong local authorities and government-supported mass organizations. Only in one village in Bac Giang did the OEM observe informal credit groups organized by farmers. Each of the groups had 60 or more members. Each member contributed monthly Đ200,000 (about \$13) for 72 months and was entitled to a loan of up to Đ12 million (about \$774). Members of these groups were better-off families with large savings, many of them with multiple businesses including trade, small agro-processing, farming, and livestock. Moneylenders were active in that village, and competition among them resulted in an interest rate of 1.50% per month, only slightly higher than the AgriBank's commercial rate of 1.15% per month.

63. **Project Interventions.** Projects from various government agencies, nongovernment organizations, and aid agencies influenced the context in which rural households rose from poverty. For example, health service cards issued to poor households reduced medical costs for them. Under Program 135, the central Government allocated a small annual grant of Đ50 million, or \$3,200, to each poor commune. Some poor communes used the grant to build schools, clinics, bridges, or small irrigation projects. In one case, a poor commune used 2 years of the annual grants to build a 1 km road. Such a short road did not seem to contribute significantly to poverty reduction in that commune. The OEM also visited villages with reforestation programs financed by international agencies or nongovernment organizations that paid wages to participants for 3 years for tree planting and maintenance, earning extra income for those families.

64. The OEM observed strong positive impact of the RCP financed by ADB. Loans from ADB were the only source of long-term funds in the AgriBank branches visited, enabling them to provide medium-term loans of 3 years. The easy access to formal credit from AgriBank enabled many poor households to rise from poverty by raising animals—the most common strategy in areas severely short of farmland and off-farm employment. Lending from PCFs, while at a monthly interest rate higher than AgriBank's, was appreciated by borrowers due to its convenience and flexibility. Loan processing in PCFs reportedly took only 2–3 days. Repayment could be made earlier than the original plan if borrowers preferred. Loans could be applied to nonproductive uses such as school fees or motorcycles. In some PCFs, no-collateral loans were available at a high monthly interest rate of 1.7%, which was still lower than the 2–3% most moneylenders charged.

65. The impact of the RISP, however, was marginal in the cases studied. The OEM visited 12% of the subprojects completed under the RISP, including rural roads, markets, and irrigation and water supply systems. The road subprojects upgraded previously gravel inter-commune roads to a paved surface 6 meters wide and 32 centimeters thick. In most cases, the OEM

observed light traffic on the improved roads. While households along the roads appreciated the public investment that was free to them, the actual benefits seemed to be insignificant, mainly making travel on foot or by bike or motorcycle less difficult. While some interviewees (especially commune officials) reported rising prices for farm outputs after road improvement because more buyers came to the villages, the OEM noted that most households had little surplus to sell, as they had barely enough farmland for self-sufficiency. In some mountain villages visited, cassava was the only commodity sold by households. Even with a large price increase from Đ700–Đ800 (\$0.05)/kg to Đ1,200 (\$0.08)/kg after road improvement, the low-value cassava did not contribute significantly to poverty reduction. Furthermore, interviews with households about 1 km away from the roads found no impact at all, as buyers did not visit those villages even after the project investment. In these cases, the positive impact of the road subprojects appeared to be limited to a few families who opened small shops on the roadsides, as well as reduced travel difficulty for other households living along the roads.

66. Most of the project roads observed by the OEM did not link to commercial centers. In two cases, the OEM observed upgraded roads ending at a river or next to a wetland that needed a bridge. Interviewees said that if the subproject design had included a budget for bridge construction, the investment could have linked the upgraded rural roads to a national highway, and the roads would have attracted substantial business. According to project staff, however, no such budget was available under the RISP, which focused on upgrading rural roads in poor regions instead of improving road networks. Overall, the OEM found that the improved rural roads provided convenience for a small number of residents along them, but did not promote economic growth or stimulate business, due largely to the relatively isolated location of the project roads. Small populations in the subproject areas failed to attract commercial users of the roads even after their improvement.

67. The irrigation subprojects visited by the OEM suffered more problems. In Lang Son, an irrigation management company collected only 20% of the irrigation fees due at the time of the OEM visit. Some beneficiaries with farmlands located upstream of the irrigation system refused to pay because they received water with or without the ADB-financed project. Some said that they suffered from the project because water from the canal overflowed on their lands several times. In one village at the tail of the system, a canal constructed about 1 year previously had not yet brought any water to that village. The reasons were (i) insufficient water flow to the tail largely because of waste of water in upstream, including overflows and excessive water use by some upstream users for power generation or fish ponds, and (ii) the lack of a water-user group to take care of water allocation in the tail village. The village head and farmers interviewed in the tail village said that they did not know who financed the canal construction or when they would receive water. No one had informed them that they should form a water-user group to receive water. They were not in a position to complain because they did not pay for the investment. In Bac Giang, an irrigation project improved 9 km of canal, which reportedly increased the command area from 180 ha to 250 ha. In an upstream village about 1 km from the reservoir, the OEM found that only 4 ha out of the 42 ha, or less than 10%, of the paddy land in that village benefited from the subproject. Land in the village—both irrigated and not—was equally distributed to all households. In two households visited, two-fifths of their land received water with or without the project, and another two-thirds did not receive water with or without the project. Only the remaining one-third of their land received water as a result of the project, enabling a second rice crop per year. The increment in production was small, about 100 kg of rice for each household. In 2004, there was no rice increment because the land did not receive sufficient water.

68. Similarly, the drinking water subprojects visited did not seem to have a large impact on poverty reduction. These subprojects were located in district towns, where most clients were not poor. In Tra Vinh, the OEM visited a drinking water system completed in early 2004 in a district town with 2,476 households. The system was designed to supply water to 600 households, but only 288 households, or 48%, were connected to the water system at the time of the visit in May 2005, more than a year after subproject completion. The primary reason was insufficient demand. Since most households in the subproject area had their own wells before the project, some did not want to pay the connection fee of Đ400,000 (\$26) even when the water pipe passed in front of their houses. The quality of the water from their wells was as good as that from the project well, all of them deep. The primary benefit of the subproject was the convenience of running water enjoyed by the households that paid the connection fee.

69. The 12% subprojects visited by the OEM might not have been representative, as they were not randomly selected. However, aggregated data provided by the central project management unit of the RISP seemed to confirm OEM's findings. According to their data, irrigation fees to be collected as of May 2005 satisfied 25-90% of the O&M cost of the irrigation schemes. The collection of irrigation fees in lowland provinces was better than in mountainous areas, where the rate of collection reached only 30%. For drinking water supply systems, the total number of households connected reached just 60% of designed capacity.

F. Issues, Underlying Causes, and Alternatives

1. Poverty Reduction and Household Vulnerability

70. While rural poverty has been reduced substantially in the areas visited, the definition of poverty was low, and many of the non-poor interviewed seemed to be near poor. They may easily slip back into poverty when encountering such misfortunes as sickness of family members or investment failure due to price fluctuations, outbreaks of animal disease, or natural disasters. Finally, the employment prospects of the rising generation strongly affects the sustainability of a rural family's rise from poverty. Many of the rural areas visited suffered severe shortages of farmland and local off-farm employment. In these areas, the rising generation may easily become poor if most of them remain in the village and rely on agriculture.

71. The OEM found that most households could recover from one-off sickness or investment failure by themselves if given timely access to unsubsidized credit that was long term enough and affordable—that is, at commercial instead of moneylender interest rates. Given the hard-working culture in rural Viet Nam, these households could recover by reinvesting, working harder, and reducing consumption. Free or subsidized assistance from governments or funding agencies, such as medical service cards, subsidized loans, or free houses, while bringing short-term benefits appreciated by recipients, may not be the best solution in the long run. As the subsidies attracted non-targeted participants more powerful than the poor, the OEM observed leakage in the subsidized lending program, with loans going to village leaders and other non-poor who could afford commercial interest rates. In the villages visited, the supply of free houses was far below the number of eligible applicants, due primarily to budget constraints for the government program. In the long run, free money may have more negative impacts as beneficiaries and local authorities develop a culture of dependence, as has been observed in many developing countries with a long history of free assistance from funding agencies.

72. A better alternative to assist the poor and the near poor at times of misfortune may be to provide unsubsidized credit in a timely manner, with simplified procedures, short processing times, long maturity, and maximum flexibility in repayment arrangements. This should be doable,

as evidenced by real cases observed by the OEM. In Dak Lak, a visited PCF provided quick loans within 1 day for emergencies, which led to the disappearance of moneylenders in that area. In Fu Yen, an AgriBank branch allows repayments in any amount at any time on or before the due day, and this flexibility was highly appreciated by the borrowers interviewed. With concerted efforts, such good practice could be replicated in more areas to maximize the positive impacts that formal credit could have in reducing household vulnerability and rural poverty. At the initial stage of replicating this practice, emergency loans could be limited to former or existing clients of AgriBank or PCFs. Since AgriBank or PCFs already know their clients, or keep their land-use certificates as collateral, the lending risk should be manageable. If successful, this practice may encourage more rural households to borrow from AgriBank or PCFs in order to have timely access to formal credit in times of emergency.

73. Since most formal financial institutions currently do not provide emergency lending, the quick and flexible loans from moneylenders are rural households' last resort in times of emergency. It seems that outlawing moneylenders will not bring their disappearance as long as demand for their services is not met by formal financial institutions. On the contrary, banning or tightening control of moneylenders would increase their operational costs, resulting in higher interest charges to borrowers. Concerns about the harm done by moneylenders should be addressed with measures specifically targeting the harm, not by simply banning moneylenders.

74. Meanwhile, long-term loans may be provided for rural parents to invest in their children's education. Since private investment in education will benefit not only the investors and their children but also society by breaking the vicious cycle of inherited poverty, interest subsidies could be considered to encourage education investment, including in particular post-compulsory education, which creates access to formal employment.

75. Finally, public investment to control animal disease should receive sufficient attention. Given the serious impact of epidemic outbreaks on rural poverty, providing sufficient funds to accelerate research on controlling animal disease and provide free preventive treatments to all rural households seems to be an intervention effective for poverty reduction, as it addresses one of the most critical causes of household vulnerability, affecting many rural poor and near poor.

2. Public Investment in Rural Infrastructure

76. From a review of project documents, the performance of the RISP was impressive. It targeted poor regions and provided rural infrastructure—roads, markets, and irrigation and drinking water systems. It met all physical targets at a cost lower than estimated at appraisal. It used the cost savings to construct additional roads, irrigation canals, and water systems.

77. Field examination of subprojects and in-depth interviews with households, however, revealed the project investment to be less than relevant to poverty reduction in the subproject areas visited. For example, the RISP upgraded inter-commune roads from dirt or gravel to a paved surface, providing convenience to residents along the roads but not attracting private investment to the subproject areas or stimulating economic growth. Interviews with local residents found that the key constraints in those areas were a severe shortage of farmland, a growing labor surplus, and a lack of sufficient local off-farm employment to absorb the surplus labor. Without creating long-term jobs to ease the population pressure on farmland, the road investment did not seem to be relevant and worthwhile at a time that the urgent need was more employment. Furthermore, the OEM noted that households in the subproject areas had little surplus production to sell. Given the low population density in the remote areas and the lack of

commercial users of the roads, dirt or gravel roads may well serve the current needs. With the exception of government agencies, most road users traveled on foot or by bike or motorcycle, which could manage dirt or gravel roads even in the rainy season, albeit with difficulty. The small convenience for a few residents along the roads should not have been the priority of public investment. Much more poverty reduction might have been achieved if scarce public resources had been used to improve infrastructure in areas that were naturally attractive to private investors, such as lowlands adjacent to commercial centers, or areas well connected to highways or road networks, where improved infrastructure could elicit large inflows of private investment to generate long-term jobs. Through migration, surplus laborers from poor regions may leave poverty behind by finding employment in more prosperous regions.

78. The irrigation and water supply subprojects inspected by the OEM suffered more problems than the roads, including insignificant benefits from the irrigation investment and insufficient demand for drinking water to economically justify the investments. Many interviewees reported insufficient water supplies in the dry season even after the irrigation investment, which improved water availability but not significantly (para. 67). In the long run, financing of O&M will become another major concern. Even with free investments paid for by the central Government, the irrigation and water supply companies visited could not self-finance their operations, requiring staff salaries to be paid by district governments. As the water systems age, the cost of O&M will increase, and the problem of inability to collect the full amount of user fees will threaten their sustainability.

79. This analysis should not lead to the conclusion that all investment in rural infrastructure is not worthwhile or unnecessary. Whether or not a particular investment is worthwhile depends on its real benefits and costs. As this depends on local realities, there is no standard answer. The OEM asked local leaders and beneficiaries if they would have invested in the infrastructure subproject if they had had to pay the costs. In most RISP subproject sites visited, the answer was no. In one commune with an irrigation system invested by the RISP, the commune head said that their urgent need was to build 17 footbridges. Since there was no free money from external sources to finance footbridges, the commune head said that they would like to take loans to build them and repay the loans by collecting annual fees from households. His only request was the provision of a long-term loan at low interest. Since he could collect only small fees from each household every year, it might take 10–15 years to repay the loan. In a non-project village, interviewed farmers expressed their strong willingness to invest in a small irrigation system at their own expense if a long-term loan were available at affordable interest rates. These interviewees had farmland next to a stream with sufficient water, but a lot of money was needed to build a concrete dam to effectively use the water. In another case, the owner of a large rice mill said that he would like to invest in a bridge if a long-term loan were available, as the investment would help him expand his business by significantly reducing transportation costs and attracting more clients. Finally, the OEM observed cases of private investment in irrigation facilities, village roads, or small bridges by farm households or community leaders. Some of these investments were financed by loans from AgriBank, with a maturity of only 3 years. These cases seem to support the hypothesis that farmers, individually or collectively, would be willing and able to pay for infrastructure investments that bring them more benefits than costs, if they had access to long-term loans at low interest.

80. The information critical to determining the worthiness of a particular investment is available only in the particular subproject area. The grant nature of funding agency-financed projects unfortunately prompts local authorities and beneficiaries to welcome any investment

that is free to them.¹¹ The executing and implementing agencies also have strong incentives to construct as many subprojects as their budget allows, regardless of the worthiness of the investment from the viewpoint of the public, because their budget allocation is linked to physically completing subprojects.

81. To ensure that only truly worthwhile investment in rural infrastructure receives public assistance, a better alternative may be to make long-term loans available to private entities, individuals, or beneficiary representatives for investment. While interest rates could be subsidized to encourage private investment in small-scale village infrastructure (which can be seen as semi-public goods), borrowers should be required to repay the full amount of the loans. This policy will serve to test of the worthiness of the investment: If the investment is truly worthwhile, its costs can be fully recovered from its benefits, and beneficiaries should be able to fully repay the loans. In most cases, unwillingness to pay for the investment provides good evidence that it lacks worthiness.

82. This special evaluation study (SES) notes that this new idea needs pilot testing before actual implementation. Moreover, efforts are needed to search for appropriate mechanisms to deliver long-term loans and collect repayment. Given the long-term sustainability of its operations in rural Viet Nam, AgriBank may be an ideal mechanism for such lending. The OEM visited an AgriBank branch in Fu Yen, which provided 11 loans for village infrastructure investment, with borrowers being individuals (usually commune heads) who used their names to borrow on behalf of many beneficiaries. For lack of long-term funds, however, the maturity of the infrastructure loans was only 3 years.

3. The Role of Rural Credit in Reducing Poverty and Vulnerability

83. In the areas visited, rural households' access to credit played a crucial role in reducing poverty and household vulnerability for the following reasons:

- (i) Many households borrowed formally to raise animals, which made a big difference in their cash income because they had previously been subsistence farmers, suffering severe shortages of farmland and off-farm employment, and unable to migrate as they had no social connections in cities.
- (ii) Borrowing money was a typical household coping strategy in times of emergency, such as a family member falling seriously ill, especially when they had no animal to sell.
- (iii) Many poor households interviewed said that they borrowed frequently in times of food shortage and repaid after the rice harvest or when they received wages.
- (iv) When investment failed, many households coped with the crisis by borrowing and reinvesting.
- (v) In one case, the OEM observed a widow who borrowed to support her daughter's completion of high school, with the hope that the daughter might find a good job after graduating and repay the loan.

84. Suppliers of rural credit in the areas visited included (i) formal financial institutions such as AgriBank, VBSP, and PCFs and (ii) informal players such as relatives, friends, and moneylenders. For investment, most rural credit came from formal financial institutions. For

¹¹ Farmers may support even a bad project that is free to them, as long as they benefit a little from the investment, because a little is better than nothing when it is free. See ADB. 2005. *Effectiveness of Participatory Approaches: Do the New Approaches Offer an Effective Solution to the Conventional Problems in Rural Development Projects?* Available: www.adb.org/Documents/Reports/Evaluation/sst-reg-2005-01.pdf

emergencies, however, most borrowers turned to informal sources, including in particular moneylenders, who seemed to be the only source that provided the urgently needed funds on the spot or within a same day without requiring collateral and with maximum flexibility in terms of loan size and repayment scheduling. However, the high interest charged by moneylenders resulted in distress sales of farmland by some borrowers—a major factor underlying poverty reversion.

85. The OEM was impressed by the success achieved by AgriBank. In the areas visited in northern Viet Nam, rural credit from AgriBank was readily available to most rural households, including mainly near poor families and some poor as well. Success seemed to be attributable to a number of factors. First, the fairly egalitarian distribution of farmland in rural Viet Nam and the issuance of land-use certificates meant most rural households had red books¹² to offer as collateral to formal financial institutions. The red books were kept by banks and returned to borrowers only after they had fully repaid their loans. This requirement provided strong incentives for repayment and reduced lending risk. Second, local authorities were actively involved in the lending programs run by government banks. Since local authorities were powerful in rural areas, their involvement contributed to the collection of repayments in most of the cases studied. Third, most villages visited had a strong culture of repaying debts, with borrowers willing to repay when loans resulted in successful investment, even if they did not plan to borrow again. Many interviewees took only one loan from AgriBank and relied on their own savings for continued investment, reportedly in line with a culture of unwillingness to be exposed to credit risk unless absolutely necessary.

86. The OEM observed the following areas that need improvement. First, loan processing time varied significantly, ranging from 3 days in the best case to 2 months in the worst, for group lending, with most interviewees reporting a processing time of 10 days or 2 weeks. This delay was acceptable to most borrowers for investment. In emergencies, however, none could afford to wait so long. This explained the observation that most borrowers turned to moneylenders in times of urgent need. While a long processing time may be unavoidable for the first loan, as a formal financial institute such as AgriBank needs to carefully assess a new borrower, efforts may be made to simplify lending procedures to existing clients for emergencies. These clients are already known to AgriBank, and their red books are kept by AgriBank as collateral. Discussions with AgriBank staff resulted in the hypothesis that, with concerted effort, timely provision of emergency loans to existing clients is possible, with processing time reduced to 1–2 days. If this can be implemented, AgriBank could contribute significantly to poverty reduction by reducing the high costs to rural households of loans for emergencies. To start with, emergency lending could be restricted to existing clients who suffer a one-off shock, because lending to families with chronic patients could be highly risky. Even with this limitation, emergency lending could potentially save many near poor from slipping back into poverty.

87. Second, while AgriBank management in Hanoi assured the OEM that their lending policies allowed maximum flexibility, actual implementation of policies varied significantly in the areas visited, reflecting the discretionary power of loan officers at the grassroots. The OEM observed cases of setting maximum loan size, requiring lending to groups only in remote areas, limiting loan extension, and restricting loan use to productive investments. The last restriction denied borrowers' demand for loans for other purposes such as education investments and coping with emergencies, and thereby missed the opportunity to mitigate two critical causes of rural poverty. Maximizing the role that formal credit plays in poverty reduction requires removing

¹² With the exception of some young couples, who received land from parents without a separate red book, because splitting a red book required bureaucratic procedures that reportedly took a long time.

these restrictions. Formal financial institutions should be encouraged to provide unsubsidized loans to most rural borrowers based on demand and repayment capacity as well as the availability of funds. No restrictions should be imposed on loan use, size, length of maturity, or the number of extensions.

88. Third, given the need for rural infrastructure development and the shortage of grants from government or funding agencies, demand exists for long-term loans for private investment in small-scale rural infrastructure. High demand was observed in villages that had no access to free money from external sources. In a few cases, rural households contributed cash to upgrade small roads and bridges, but in most areas visited, farmers could not raise sufficient funds by themselves for infrastructure improvement. Providing long-term loans to finance such improvements, to be repaid by beneficiaries later, may accelerate rural development by alleviating the constraint of insufficient funds for rural infrastructure development. So far, lending for rural infrastructure improvement has been limited. While some visited AgriBank branches expressed interest in such lending, their lack of long-term funds was a major constraint.

89. Finally, two policy distortions continued to restrict the commercial operations of formal financial institutions. First, existing government regulations required financial institutions that provided loans to households living in remote areas do so at subsidized interest rates.¹³ While the interest subsidies were funded by the Government, reimbursement was reportedly delayed, sometimes by 1–2 years. This policy might have reduced AgriBank's incentive to expand lending in remote areas. Second, loans provided by VBSP were capped by the Government at highly subsidized interest rates of 0.45–0.50% per month, compared with 1.15% per month by AgriBank and 1.35% by PCFs. This regulation hurt VBSP's incentive to mobilize deposits, as interest rates for deposits were higher than the subsidized lending rates. The OEM feels, and international experience indicates, that interest subsidies are unnecessary and hurt the sustainability of financial institutions—and, therefore, hurt borrowers as well in the long run. International experience also shows that poor people can and are willing to pay commercial interest rates, their priority being easy and rapid access to credit, especially in times of urgent need, rather than low interest rates. Subsidized interest rates can therefore have the opposite effect of that intended by government policy by reducing the incentive and capacity of financial institutions to expand the supply of credit to the poor, thereby forcing the poor to borrow from moneylenders at interest rates significantly higher than commercial ones.

90. In the long run, both AgriBank and VBSP have to rely primarily on mobilizing deposits instead of borrowing from funding agency projects or governments, if they intend to sustain their operations on a commercial basis. To encourage savings mobilization and provide strong incentives to expand and sustain lending to the poor, it may be better if the Government allows AgriBank and VBSP to lend to poor borrowers on a commercial basis, charging interest rates high enough to cover their operational costs and lending risk. If any need exists to subsidize poor borrowers, interest coupons could be issued by the Government and distributed directly to those for whom an interest subsidy may be justified.¹⁴ The poor would take commercial loans and pay the interest charges with interest coupons; banks would issue commercial loans to the poor and collect the coupons, which would be reimbursed by the Government.

¹³ Areas in Viet Nam are divided into three zones. The current policy requires 15% interest subsidy for borrowers living in zone 2 and 30% subsidy for those in zone 3.

¹⁴ For some poor who never borrow and therefore do not yet understand the potential benefits of investment, interest subsidies for the first loan may have certain positive effects.

91. Compared with the current practice of using government funds to provide cheap loans to the poor, interest coupons may have the following advantages. First, since AgriBank and VBSP would use their own funds for lending to the poor and receive interest coupons in payment for their interest charges, scarce Government funds would be used for interest payments instead of for providing loans. Limited government funds would thus be leveraged into larger banking resources for lending to the poor. Second, since banks would use their own funds for lending to the poor, they would be more careful in appraising loans and more vigorous in collecting repayment than in the current practice of using Government funds for lending to the poor, where all lending risks and losses are covered by the Government. Moreover, when facing difficulties repaying loans, borrowers may place a priority on repaying commercial loans with a high interest rate than to cheap loans from governments. By providing appropriate incentives to both financial institutions and borrowers, this new policy may significantly reduce the risk of lending to the poor. More importantly, by allowing banks to lend to the poor on a commercial basis, this new policy may sustain poor people's access to formal credit in the long term. This SES highlights the need for careful design and pilot testing of such a new policy, which should be followed by rigorous evaluation of the pilot results before replication.

4. Household and Geographic Targeting

92. Targeting has been widely used for poverty reduction in Viet Nam. In the areas visited, the OEM observed the following methods of household targeting: (i) issuance of health service cards to poor households; (ii) issuance of poor household certificates to exempt the poor from paying school fees; (iii) provision to poor households of free houses, seed, and mosquito nets; and (iv) provision of subsidized credit. Geographic targeting was also observed, including (i) rural infrastructure improvement through government projects such as the RISP financed by ADB and (ii) limited annual grants to poor communes under Program 135 financed by the Government.

93. The OEM was impressed by the accurate identification of poor communes and poor households in rural Viet Nam. In the areas visited, communes and households identified as poor were indeed the poor ones. The following factors seemed to have contributed to this success. First, the selection criteria set by the central Government seemed to have been implemented strictly at the grassroots by strong local governments and village leaders. Second, since only a few households were identified as poor in any one village, most villagers had little chance of being selected. With no conflict of interest, most households might have been happy to help the authorities identify the poorest in their villages. Third, despite the complicated theories and methods used to calculate income poverty or measure other dimensions of poverty, in practice, it was rather easy to identify who were the poor at the grassroots. In all villages visited, most interviewees—including village leaders and ordinary households—knew who the poor were in their villages.

94. Success in identifying the poor did not guarantee, however, the success of poverty targeting, if success is measured by the number of poor households that rose from poverty. The OEM observed various problems in targeting programs. In the case of household targeting, the primary weakness was the small coverage of the targeting program, due primarily to limited budgetary resources for program operation and, consequently, supply being far outstripped by demand stimulated by the grant nature of the program benefits. In the areas visited, only a few villages provided free houses to the poor, and the actual coverage was about 10% or less of eligible applicants. The free health service cards were distributed to all poor households or all households in poor communes. However, certain treatments and certain medicines were not covered by the program. A more binding constraint was the budget actually allocated to a

particular commune. In one case, the budget was allocated on a basis of Đ10,000 (\$0.65) per capita per month. To operate the program within a given budget, restrictions on demand were imposed, including providing medicines on a first come, first served basis, which denied latecomers, who might have had the most dire need for help.

95. In the case of geographic targeting, the primary weakness was less relevant investment financed by projects. The OEM found that many subprojects under the RISP provided small benefits to a few residents in the subproject areas but failed to mitigate the key constraints that held rural households in poverty. Typically, the rural roads that were upgraded neither stimulated economic growth nor brought in business. Even with good roads, poor mountainous regions remained unattractive to private investors, when investments in lowlands brought in much higher returns.

96. In both household and geographic targeting, leakage of project benefits, including subsidized loans, to the non-poor was observed despite the accurate identification of poor households and poor communes. The *Viet Nam Development Report 2004* provided more data on the percentage of beneficiaries who were non-poor under various targeting programs. Leakage was estimated at 25.1% under the subsidized lending programs, 28.6% under the healthcare cards, 30.2% under the education fee exemption, and 44.8% under Program 135, which has provided annual grants to poor communes since 1998.

97. A major cause of the above problems seems to be incorrect assumptions underlying the targeting approaches, including that (i) poor people live in poor regions, (ii) money or public investment flowing into poor regions will automatically lead to poverty reduction, and (iii) the solution to poverty reduction in a poor region is within that region.

98. The OEM found inconsistencies between these assumptions and the observed realities. First, a bulk of poor people in Viet Nam live in less poor regions. Despite the high poverty incidence in the poor, remote regions, the absolute number of poor people in them was relatively small because of their low population density. A recent study on the spatial patterns of poverty in Viet Nam concludes that “most poor people live in less poor areas.”¹⁵ Second, available studies showed that locating a development project in a poor region did not guarantee significant impacts on poverty reduction, if the project interventions did not mitigate the key constraints on poverty reduction there.¹⁶ Finally, the solution to poverty reduction in the poor regions visited by the OEM seemed to lie largely outside those regions, where the primary causes of poverty included a severe shortage of farmland, a large and growing labor surplus, and insufficient local off-farm employment to absorb the surplus labor. The rural infrastructure completed under RISP did not address these key issues and did not make a significant difference in poverty reduction in the areas visited. A more effective and long-term solution to poverty in those regions seemed to be migration of the surplus rural labor out of agriculture and away from the poor regions, so that the remaining farmers might cultivate sufficient farmland to make a decent living. This approach requires (i) fast economic growth in non-poor regions to fuel the creation of large numbers of long-term jobs outside of agriculture and (ii) the orderly migration of surplus rural labor out off poor regions.

99. Based on its findings in the field, the OEM developed the following hypothesis. Targeting may be effective in welfare programs to channel public assistance to a desired group by

¹⁵ Minot, N. (IFPRI), B Baulch (IDS), and M Epprecht (IFPRI). 2003. *Poverty and Inequality in Viet Nam: Spatial Patterns and Geographic Determinants*. Washington, D.C. (page 71).

¹⁶ ADB. 2002. *Project Performance Audit Report on the Second Barani Area Development Project in Pakistan*. Manila.

excluding the undesired groups. Extending its use to investment projects aimed at poverty reduction, however, does not seem to be appropriate. For effective poverty reduction, project interventions need to be tailor-made based on a thorough understanding of the primary causes of poverty in the particular project areas. The targeting approaches, by focusing narrowly on accurately identifying the poor and excluding the non-poor, ends up separating the poor from the most dynamic actors in society, isolating them from the mainstream of economic growth, which is often led by the non-poor, and leaving them to rely on government subsidies or external assistance. History shows that large-scale poverty reduction has been achieved by economic growth, not by targeting programs. As concluded by the *Viet Nam Development Report 2004*, the spectacular success in reducing poverty in Viet Nam “took place in the absence of a mechanism to measure poverty or target the poor based on international standards” (footnote 6, page xvi).

100. Instead of narrowly focusing on locating projects in poor regions by geographic targeting, or on benefiting the poor by household targeting, a more effective way to reduce persistent poverty in poor regions may be infrastructure investment in areas naturally attractive to private investors, with a view toward creating a lot of long-term jobs. Meanwhile, special programs may be designed to facilitate the orderly migration of surplus rural labor from poor regions to the places where the jobs are. This may be a better approach for ADB assistance.

101. As a key constraint to labor migration was poor households’ lack of social connections in cities, especially those living in remote regions without a history of migration, special programs may be financed by ADB to help a first batch of young people migrate from poor, remote regions to cities. These programs may

- (i) encourage factories and companies to hire qualified young people such as high school graduates from remote areas by offering government assistance for their recruitment;
- (ii) select, with assistance from schools and local authorities, high school graduates as participants from remote villages currently without migrants; and
- (iii) provide temporary housing for these young migrants for their initial days in cities.

It is reasonable to assume that, if these young migrants settle down successfully in cities, they will become social connections assisting their fellow-villagers’ migration to cities in the future, so assistance need be given to only the first batch of migrants from a particular remote village currently without migrants. Government programs do not need to provide training, which can be and is effectively arranged by employers, who know their training needs best.

CASE STUDY: PEOPLE'S REPUBLIC OF CHINA
Chengdu–Nanchong Expressway Project (Loan 1638-PRC)
Southern Yunnan Road Development Project (Loan 1691-PRC)

A. Introduction

1. Selection of the Projects for Case Studies

1. Two projects in People's Republic of China (PRC) were included in the study: (i) the Chengdu–Nanchong Expressway Project, financed by Loan 1638-PRC for \$250 million and approved in 1998, and (ii) the Southern Yunnan Road Development Project, financed by Loan 1691-PRC for \$250 million and approved in 1999. Both projects had been completed. The former was located in Sichuan Province and rated highly successful by the project completion report prepared by Asian Development Bank (ADB). The latter was located in Yunnan Province and rated successful by the project completion report prepared by ADB.

2. Fieldwork of the Operations Evaluation Mission

2. An operations evaluation mission (OEM)¹ visited areas under these two projects from 20 July to 16 August 2005. In Sichuan Province, the OEM visited the 208 kilometer (km) project expressway as well as two of the five local roads upgraded under that project (supposedly to be financed by the ADB loan, see para. 64). For comparison, the OEM also visited local roads in two counties upgraded without assistance from the project, as well as National Highway G318, which was replaced by the project expressway. In project and non-project areas, the OEM conducted in-depth interviews with 42 rural households in eight villages that belonged to seven townships in six counties. In addition, the OEM briefly interviewed 14 shop owners in small towns and held lengthy discussions with four owners and/or managers from three private companies that invested in the project areas. In addition to meetings with the Sichuan Provincial Communication Bureau (the Executing Agency of the project) and the Chengdu–Nanchong Expressway Corporation, the OEM held discussions with county transportation bureaus, poverty reduction and development offices, business bureaus, and township and village leaders.

3. In Yunnan Province, the OEM visited the 147 km project expressway and National Highway G213, which it replaced. In addition, the OEM visited many local roads, including those connecting two counties and those running from counties to townships, from townships to administrative villages, and from administrative villages to sub-villages, or so-called "natural villages" under administrative villages. These roads were all developed without ADB financing, though some were included in the ADB project as add-on components. In project and non-project areas, the OEM conducted in-depth interviews with 51 rural households in eight villages that belonged to eight townships in five counties. In addition, the OEM briefly interviewed six migrants who had migrated from poor villages and were working in shops and restaurants in Simao City, which is located near an exit of the project expressway. In addition to meetings with the Yunnan Provincial Communication Bureau and the Yuangjiang–Mohei Expressway Corporation, the OEM held intensive discussions on rural poverty issues with various government agencies including the Provincial Poverty Alleviation and Development Office, Provincial Education Bureau, Provincial Health Bureau, Provincial Treasury Bureau, Labor and Social Protection Bureau, and Provincial Civil Affairs Bureau, which is in charge of welfare programs for the most needy in rural areas. In the five counties visited, the OEM held in-depth

¹ The OEM comprised a senior evaluation specialist from ADB as mission leader, one international consultant, and two interpreters. In addition, one local consultant participated for 15 days of the fieldwork.

discussions with county heads and poverty reduction officials, as well as with village and township leaders and field staff who worked directly with farmers. Finally, the OEM interviewed 11 managers or staff members of agricultural companies in project and non-project areas whose investments included tobacco, tea, sugarcane, coffee, and rubber.

4. Altogether, the OEM visited 16 villages and conducted 204 interviews during its fieldwork in the PRC, including (i) in-depth interviews with 93 rural households, (ii) individual discussions with 76 government officials (13 from provincial agencies, 30 from municipalities and counties, and 33 from townships and villages), (iii) individual discussions with 15 managers or staff members from commercial companies or financial institutions, and (iv) brief discussions with 14 shop owners and six migrants working in shops and restaurants. To understand the role of ADB projects in households' rise out of poverty, the OEM visited areas both close to and far from expressways and local roads. Table A3 provides a list of areas visited.

Table A3: Project Areas Visited

Municipality	District/County	Township	Village	Sub-village
A. Sichuan Province				
Suining	Daying	Yufeng	Yuyin	
	Shehong	Dayu	Wujiaqiao	
	Pengxi	Mingfeng	Kuantai	
Nanchong	Gaoping	Yong'an	Qianjin	
	Nanbu	Shuangfeng	Caojiawo	
	Jialing	Datong	Longtaisi	Sufenba
B. Yunnan Province				
Yuxi	Yuanjiang	Mili	Mengpeng	Halou
		Wazhi	Nibai	Dulongyi
	Mojiang	Shuanglong	Lali	Kala
		Longba	Lushui	Lushui
			Hapulu First	Damiduo
Simao	Pu'er	Dehua	Pojiao	Wotuo
	Cuiyun	Yixiang	Yingpanshan	
	Menglian	Mangxin	Bangshun	

Source: Operations Evaluation Mission.

B. Results of Poverty Exit

1. Poverty Reduced

5. Poverty was reduced substantially in the areas visited. In Sichuan, poverty was estimated by some interviewees at less than 3% in the better-off areas and less than 10–20% in the poorer villages. The definition of the poor that they used was people with enough to eat but no cash in hand. The poorest households could not afford electricity and used oil lumps even when electricity was available in their villages. Poverty incidence seemed to be higher in the

villages visited in Yunnan, which was dominated by mountainous regions with 25 ethnic minorities. While hunger poverty was not observed, the OEM visited hardcore poor who lived on less than CNY668 per capita per year,² and other poor who lived on less than CNY924 per year. In addition, there were many low-income or near-poor households in the poor regions visited in Yunnan, who relied mainly on grain production without cash crops or off-farm incomes. These people reportedly could not afford to pay medical bills and had little capacity to cope with shocks, and so were at high risk of returning to poverty.

6. Non-income dimensions of poverty were also observed, including a shortage of drinking water, poor housing conditions, long distances to travel to primary schools and clinics, lack of all-season roads, and isolation from the dynamic growth of the outside world. Even where government clinics were available in all townships and counties, many poor households interviewed said that they could not afford the fees and used private village doctors who charged less.

2. Causes of Remaining Poverty

7. Rural poverty had various causes. Some of the hardcore poor interviewed lacked capacity to help themselves, such as the disabled, the aged in their 70s–80s, people lacking family labor, or households with at least one chronically or seriously sick member. For the poor able to work, the causes of poverty seemed to include the following: (i) a severe shortage of land, where farmland per capita was inadequate or merely sufficient for self-consumption, with little surplus for sell; (ii) a poor external environment in remote mountainous regions with small local markets and expensive access to outside markets; and (iii) low human capital due to limited education, difficulty in speaking Mandarin Chinese, lack of aggression or ease of contented, or lack of courage to face exposure to the outside world. This last cause seemed to be common among the poor minority households visited in Yunnan.

3. Sustainability of Poverty Exit

8. While the majority of the rural households had risen from poverty in the areas visited, risks remained that may threaten the sustainability of that exit. The following risk factors seemed to be most relevant:

- (i) First was serious sickness of family members, which led to high bills for medical services and related expenses, such as the cost of family members' staying in the hospital to take care of the sick and, in some cases, the loss of family labor. While only a few interviewees actually suffered from serious sickness, it was one of the most common concerns of many.
- (ii) Second was natural disasters such as droughts, floods, and epidemic outbreaks of animal or crop disease. Unlike in other parts of the PRC, this risk was relatively low in the areas visited in Sichuan and Yunnan, which are particularly suitable for agricultural production, with a mild climate and relatively good soil.
- (iii) Last was the employment prospects of the rising generation. Even in areas currently with sufficient farmland per capita, if most of the young remained in the village and relied on agriculture, the labor-to-land ratio would deteriorate, and the shortage of farmland for the new labor might eventually lead to cultivating steep slopes and therefore threatening the sustainability of natural resources. This last risk was less a concern in the areas visited in Sichuan, where most of the young generation had migrated to coastal provinces. In the areas visited in Yunnan,

² After the OEM fieldwork, the official poverty line for hardcore poor was raised in 2006 to CNY683.

however, migration to other provinces was less common due to many factors, including (a) limited education and language barriers among minorities, (b) lack of social connections in cities, and (c) a culture of reluctance to go far from home and for being less aggressive and easily contented.

C. Poverty Exit Strategies

9. Farmers in the areas visited adopted various strategies to escape poverty. These varied among households and across regions, as discussed below.

1. Migration

10. In the villages visited in Sichuan, migration was the primary strategy to escape poverty used by the great majority of households in the past 10–15 years. In many villages, almost all families had at least one young member who had migrated. Most of the migrants went to coastal provinces, while the remaining worked in inland provinces or autonomous regions such as Xinjiang, Qinghai, and Guizhou. Almost all migrants worked in non-agriculture sectors such as manufacturing, construction, and services. Due to a long history of migration in Sichuan, most rural households had contacts in other provinces such as relatives, friends, or other fellow-villagers, who provided information about job opportunities for those still in the villages. Most migrants sent back remittances two or three times a year, averaging CNY1,000 per year in the cases studied, and brought additional cash with them when they visited home during holidays. They helped with additional cash when their families faced emergencies, especially the sickness of a family member. In Sichuan, the OEM interviewed some migrants who had returned to their hometowns and invested in agriculture or rural industries and/or services, using savings from wages accumulated when they worked as migrants.

11. The situation was rather different in areas visited in Yunnan, where migration was less common for several reasons. These included (i) limited education, with school dropout rates high among the minorities even in elementary schools; (ii) language barriers, as many minority people could not speak fluent Mandarin; (iii) lack of social connections in cities because very few people had migrated in the past; and (iv) a culture of being reluctant to go far from home and being less aggressive and easily contented. These factors combined to make young people reluctant to migrate, leaving households with few alternative strategies to rise from poverty. Nevertheless, seasonal migration within the county or in neighboring counties was observed, mostly during winter when there was no farm work.

12. The OEM observed the following positive impacts of migration:

- (i) It enabled a rise from poverty for the migrants themselves, who had been surplus labor in their villages before migrating.
- (ii) It reduced the financial burden on the migrants' parents. Many parents interviewed said that at least they did not need to support their children after they migrated.
- (iii) It reduced population pressure in villages.
- (iv) Remittances from migrants became a main source of cash income for families that remained in the villages and were crucial to cover education fees, the construction of new houses, weddings and funerals, medical services, and medicines, especially for households that relied on subsistence farming with little cash.

- (v) Remittances increased the cash available in villages, enabling informal lending among villagers, as poor people were able to borrow more easily when periodic remittances increased their repayment capacity.
- (vi) Savings from wage earning enabled some migrants to return home and start a new business, which generated employment for themselves and for others (para. 10).

2. Government Organized Migration and Resettlement

13. Cases were observed in the PRC in which government interventions aim to facilitate the migration of rural labor out of surplus areas. In a migration program in Menglian County, Yunnan, the county government had agreements with local governments in Shanghai and Guangdong Province to help its migrants to those destinations. Under that program, the Menglian government helped migrants by subsidizing transportation, while the Shanghai and Guangdong governments helped migrants make contact with potential employers. At the end, participating companies offered the first job for migrants, who received low wages as interns for their first year but gained experience. In Sichuan, some local governments offered training courses for potential migrants. In one visited village with 120 households, the county government provided training to 10 villagers willing to migrate to other provinces. With a view to providing new skills to facilitate job hunting, each month-long training course focused on a particular set of skills, such as electronics or wine making. Nine of the 10 participants migrated in 2004 or early 2005 and reportedly found jobs related to the training they received, and the last participant stayed in the county and got a job in a winery.

14. Though well intentioned, these government interventions were not free of problems. First, the interventions were costly for both participants and governments. In one village, the OEM was told that 15 people had applied for a migration program but eventually only one participated, because the other 14 could not afford the CNY480 fee required even after being partly subsidized by the county government. Second, some participants not seriously interested in migration were attracted to the program because it provided a free medical check up. These people returned home shortly after migrating. Third, some participants were interested in migrating but preferred destinations other than the ones arranged by the programs. The OEM interviewed a female participant who left her factory in Shengzhen, where she worked as a program participant, after only 6 months. After returning to her village, she planned to migrate again but at her own expense and to her choice of destination. Many other participants left the Guangdong factory jobs to which they were assigned under the program and later moved to Shanghai instead of returning to their villages. In spite of these problems, the migration programs seemed to have achieved the objective of facilitating surplus labor migration from poor regions, although not to the cities intended.

15. The OEM also observed resettlement programs organized by governments, frequently for an entire village that was displaced by government infrastructure projects. In Yunnan, a program organized by local governments imported settlers from a mountainous region with a harsh climate to areas with good farming conditions and a labor shortage. Under that program, land was given on concessionary terms to a private company for tea production, which hired the settlers who participated in the program. The program provided settlers with construction materials for building new houses as well as stipends to cover basic living expenses during the first few months, at a cost of about CNY10,000 per settler. The tea company provided each participant with an area of tea to manage and harvest, paying them CNY2 per kilogram (kg) of tea surrendered. Most settlers ended up better off than they had been in their home villages. Later, other households migrated to the tea areas without government help, sometimes with

help from earlier migrants. The OEM was told that about 20% of the government-sponsored settlers returned home after a while for various reasons, while all those who had migrated at their own expense remained.

16. In Menglian County, Yunnan, a coffee company supported by local governments hired migrants from poor regions as farm laborers, who were organized by the company into various specialized production teams, each with about 100 migrants. The company provided the new workers with construction materials to build houses, a stipend to cover living costs for the first 3 months, and a small parcel of land to grow grain for home consumption. In addition, each household received 5 mu (one-third of a hectare) of land for coffee production. The program reportedly worked well, and the migrants interviewed were better off than they had been. While government-organized migration and resettlement helped the settlers rise out of poverty, the programs' cost per participant was high, and the number of households rising out of poverty was relatively small.

3. Agricultural Intensification and Intensification

17. In the areas visited, agriculture provided an avenue out of poverty in the early stages when farmland per capita was sufficient. The household responsibility system, adopted in the late 1970s, distributed land-use rights to individual households and provided strong incentives for farmers to increase production. Nationwide, total agricultural net value increased by 55% from 1978 to 1985, and agricultural productivity increased by 40%.³ Substantially increased agricultural production resulted in the first large-scale poverty reduction in the PRC in the early 1980s. Many interviewees said that they rose from poverty during that period.

18. Higher grain production in the mid-1980s allowed the Government to relax controls on grain production and marketing. As it did so, while increasing farmgate prices, many farmers diversified away from grain production to cash crops, which brought better market prices. Agricultural diversification was therefore adopted as another avenue out of poverty.

19. As the production of cash crops, fruit, fish, and animal products burgeoned, their market prices have dropped significantly in many places in the PRC, especially since 2000. Typically, the first batch of farmers who adopted a new crop earned a sizable profit. Many of the latecomers, however, did not enjoy the same fortune. In particular, many of those who followed the new practice at a very late stage, when prices had fallen sharply, suffered significant losses.

20. Agricultural intensification and diversification continued in the 1980s and 1990s. In particular, hybrids of rice, maize, and potato substantially increased crop yields. However, input costs also increased as the use of purchased inputs such as fertilizer and other chemicals intensified and their prices rose. Further intensification of agricultural production over already high yields proved expensive. In spite of higher crop yields, agricultural intensification was not an effective strategy for poverty reduction in the later stage due to the high cost of inputs. Few farmers interviewed managed to rise from poverty through intensified agriculture at this stage.

³ Lin, Justin Y. 1993. *Cooperative Farming and Efficiency: Theory and Experience from China*, edited by Csaba Csaki and Yoav Kislev. *Agricultural Cooperatives in Transition*. Boulder: West View Press, 207–226.

4. Contract Farming

21. A more recent change in cropping patterns has occurred in Yunnan since the late 1990s and early 2000s, as contract farming with private or government-owned commercial firms played a lead role in introducing new crops and reorganizing the value chain from production to processing and marketing. Commercial firms signed contracts with individual small farmers, provided them with technical assistance and farm inputs, and purchased their production. This model became quite common in several counties visited in Yunnan for producing tobacco, tea, coffee, and sugarcane.

22. For tobacco production, the processing firm Yuxi Hongta Tobacco Group Limited, which is part of the larger Hongta Group conglomerate, decided to expand tobacco cultivation to mountainous regions in southern Yunnan Province, the biggest tobacco-producing province in the PRC. Until the early 2000s, tobacco was concentrated in the center the province, close to the main processing facilities in Yuxi County. Partly as a result of expressway construction, which sharply reduced transportation time and cost for farmers selling fresh produce in Kunming, many tobacco producers decided to shift to growing flowers, which have much higher value. In addition, the tobacco company found that climate and soil conditions in the mountain regions in southern Yunnan were exceptionally good for tobacco.

23. The OEM visited commercial tea-producing companies in two counties. In Menglian County, a private company had contracts with individual households that had their own small tea plantations. The company provided farmers with technical assistance and farm inputs, purchased their production, and deducted the input costs from the crop payment after the harvest. In Cuiyun District, a commercial company obtained long-term concessions from the local government to invest in new tea plantations on public lands. It signed contracts with rural households for them to manage a small area of tea, about 2.5 mu per laborer, who received a management fee of CNY30 per mu per month during the first 2 years, when there was no harvest, and thereafter CNY1–CNY2 per kg of tea leaves harvested.

24. Sugarcane cultivation observed in a village in Menglian was somewhat different. A private processing firm was the main buyer for small farmers, and two private intermediaries, called “bosses,” became the major actors organizing small producers. The private firm signed a single contract with each boss, who then obtained loans to provide farmers with inputs, purchased sugarcane from them, and sent it to the firm’s processing facilities. Once the firm received the sugarcane, it paid the bosses, who then paid individual farmers. Many farmers relied on their bosses for other credit needs as well, including loans for emergencies.

25. In the cases above, commercial firms and private bosses played a key role in agricultural diversification and poverty exit. Compared with small individual farmers, commercial firms had better access to financial resources and agricultural technology and stronger capacity to operate in the changing commodity markets. In some cases, the OEM observed that prices paid to farmers for their crops were very low, in particular for tea, and the implied interest for the loans to farmers was too high in the case of sugarcane. The situation observed by the OEM is similar to what critics of contract farming have reported in several other studies. However, the OEM noted that almost all interviewees said that they were better off now than they had been before becoming contract farmers. Furthermore, the experience of contract farming in other countries shows that low prices paid to farmers was a common problem at the beginning of contract farming, because commercial firms tend to enjoy monopolies that leave farmers little negotiating power. However, experience also shows that high profits tend to attract more commercial firms, giving farmers more options and enhancing their capacity to negotiate better prices for their

crops. As time passes, farmers may gain negotiating experience and form organizations for collective bargaining, which may help them get better prices.

5. Off-farm Employment in Rural Areas

26. Off-farm employment was rather limited in many poor villages visited. In Sichuan, township and village enterprises played a primary role in absorbing surplus rural labor in the 1980s and 1990s. This has largely ceased at the current stage, as these enterprises became uncompetitive with large manufacturing enterprises after the economic reforms improved efficiency in urban areas. In the areas visited in Sichuan, the local industries employed only a small number of nearby farmers. Many interviewees said that wages offered by the local industries were much lower than what migrants could earn in coastal provinces. Only in villages adjacent to cities did the OEM observe farm households engaged in services. In contrast, small towns and cities visited in Yunnan absorbed a relatively large number of migrants from villages within the same province, especially in the service sector. One factor underlying this observation was a culture in Yunnan in which farmers were reluctant to go far from home. Because of insufficient social connection in cities, rural households in Yunnan had fewer migration opportunities than their peers in Sichuan.

D. Household Resources

27. Household resources include physical, financial, natural, human, and social capital. In the areas visited, the following household resources had the largest impacts on poverty reduction.

28. **Farmland.** While the quantity and quality of farmland per household was homogeneous within the same village, great variation was found across regions, depending on population density and land quality. In Sichuan, population density was high, so each household received only tiny plots of between 2 and 5 mu, or 1,300–3,300 square meters—barely sufficient for subsistence, with little or no surplus for marketing. Thus, if the rising generation stayed in the village, they would not find it possible to live by agriculture, as their parents would not be able to give them land without compromising their own welfare. In most cases, young people had no choice but to migrate in search for jobs. This is an important reason why migration to coastal provinces started as early as in the late 1980s in the villages visited in Sichuan.

29. In contrast, Yunnan had a much lower population density, with more land available per household. In the villages visited, each household had between 20 and 30 mu, and even 50–60 mu per household in some areas, where farmers were allowed to open new land on their own. In addition, the soil quality was good in Yunnan, and the altitude of 1,000–1,500 meters was ideal for such cash crops as tobacco, tea, sugarcane, and coffee. This made possible introducing cash crops, which became the main avenue out of poverty among households in the villages visited.

30. **Physical Assets.** All households interviewed had houses, though the quality varied significantly, reflecting living standards. In the villages visited in Sichuan, building or improving houses seemed to be the highest household investment priority, using remittances sent by migrants. In most villages visited in Sichuan, most of the houses in the villages had been improved in the last few years, as almost all households had at least one migrant. It seems that the quality of houses was more the result of poverty alleviation than a cause. In villages visited in Yunnan, the quality of houses was substantially lower, reflecting lower living standards, the absence of remittances, and lower capacity to save.

31. **Equipment.** In Sichuan, agriculture was mainly for subsistence, so households made almost no investment in equipment. Many families had motorcycles, which were used for family transportation rather than income generation. As with houses, the availability of equipment was more the result of poverty reduction than a factor affecting it or the avenue chosen out of poverty. In the tobacco villages visited in Yunnan, the most important household investment was a small device used to measure the temperature and humidity in the tobacco-drying room.

32. **Savings and Other Financial Assets.** Most rural households interviewed in Sichuan had savings accounts in rural credit cooperatives (RCCs). Most of the savings came from remittances from migrants and served mainly for school fees for children or to deal with emergencies, especially for paying for medical services and medicines. The OEM found only a very few cases of savings being used for investment in agricultural production.

33. In contrast, most households in the villages visited in Yunnan did not have savings accounts in RCCs. Some households had borrowed from RCCs in the past without repaying in full, so they were afraid to open savings accounts because the RCC might seize their savings. In these villages, pigs or other animals were the more common form of savings. In Yunnan, household savings came from selling such cash crops as tobacco, tea, and sugarcane, instead of from remittances. They were used mainly for improving houses, building drying rooms for tobacco, and paying medical bills. Household savings were rarely used for purchasing inputs, which were provided by the private companies or bosses, who deducted their cost from payments made to farmers for their crops.

34. **Human Capital.** The OEM observed substantial disparities in schooling in the villages visited in Sichuan and Yunnan, which related to topography (lowlands versus mountainous areas) and ethnicity. In Sichuan, the villages visited were in lowlands with good roads linked to townships and county cities. Most households valued education and invested in their children's education. Most adults, both men and women, had completed primary school, and many were secondary school graduates. A few households even had children attending university in Chengdu, the provincial capital.

35. In contrast, the villages visited in Yunnan were located in mountainous areas, and many of them had poor communications and roads, and so difficult access to townships and larger cities. Ethnic minority groups were dominant, and most households did not value education. While most adults had a few years of primary schooling, many had not finished the 6 years of primary education, and some adults, especially women, were illiterate. In most villages visited, the ethnic minority people could not speak Mandarin, though in villages with two or more minorities, Mandarin was used as the common language.

36. Finally, personal characteristics affected the selection of poverty exit strategies and their success. While almost all households visited were hardworking, other personal characteristics were important in determining capacities to migrate and find off-farm employment.

37. **Social Capital.** For migration and off-farm jobs, social networks and connections in the outside world—relatives, friends, or other fellow-villagers in cities or other provinces—seemed to be most critical. In the villages visited in Sichuan, migration to coastal provinces started in the late 1980s or early 1990s, so most households had relatives who had migrated and worked in industries or construction there. Migration therefore became an easy decision, as social connections helped new migrants with information about job opportunities and provided them

with accommodation for the initial days after their arrival at cities. The social connections substantially reduced the risk and cost of migration.

38. In the absence of social connections, as was observed in the villages visited in Yunnan, the risks felt by potential migrants (most of whom had no experience of living and working in the outside world) and the actual costs of migration were high, because migrants had to pay for a place to stay and look for a job by themselves. County governments in Yunnan tried to solve this problem by collaborating with local governments in Shanghai and Guangdong. These efforts consisted of training potential migrants, subsidies to cover transportation costs, and assistance in finding jobs through contacts established between the Shanghai and Guangdong governments and companies located there. The results of their efforts, however, were mixed (paras. 13–14).

E. Context and Conditions

39. The conditions faced by the poor played a key role in determining the options available to them for escaping poverty and influenced their selection of strategies.

40. **History and Culture.** The OEM found that history and culture varied significantly across regions and influenced poverty exit strategies. Villages visited in Sichuan had a history of migration since the late 1980s because population density was high and households had insufficient land. In contrast, most villages in Yunnan were located in mountainous areas without a tradition of migration, and most interviewees considered migration highly risky. In addition, villages in Yunnan were dominated by ethnic minorities mostly unable to speak fluent Mandarin. This language barrier added further difficulty to migration, and the few people who migrated had gone to small towns within the same county where they had no language problem.

41. **Gender.** Men and women in the villages visited in Sichuan appeared to play an equal role in family decisions. In most cases, the OEM found couples that had migrated together. Occasionally, the OEM observed families in which the woman migrated and the man stayed at home to farm and take care of the rest of the family. In many of the interviews in these areas, women were as active, or more so, in answering questions than men, reflecting their knowledge about household decisions. In contrast, men usually dominated the conversation in the minority-dominated villages in Yunnan. This seemed at least partly because of the language barrier, as women in these villages tended to be less educated than men and less able to understand Mandarin.

42. **Policies and Politics.** Government policies strongly influenced the choices available to rural households in the selection of poverty-exit strategies, as well as their success or failure. The OEM identified a number of important policy reforms in the PRC that have brought large-scale poverty reduction in the PRC (paras. 69–71).

43. **Macroeconomic Growth.** The PRC experienced rapid economic growth in the past 2–3 decades, especially in the coastal provinces particularly attractive to private investors, both domestic and foreign. The rapid growth of the national economy played a critical role in reducing rural poverty by creating many jobs for young migrants from rural areas. This was particularly relevant for the households visited in Sichuan, as almost all of them had at least one member who had migrated to a city or another province. In contrast, national economic growth did not seem to have a significant impact on poverty reduction in the mountainous villages visited in Yunnan, where few people migrated to urban centers.

44. **Local Economic Growth.** In Sichuan, economic growth in county cities or townships provided employment for some households living nearby. However, the impact of local growth on poverty reduction seemed to be limited. In these areas, most interviewees stressed that the wages offered by local factories were very low, about half of what was paid for similar work in coastal provinces. Since most households had the option of migration, employment in local industries was not particularly attractive. This was not the case in Yunnan, however, where many interviewees preferred to work in industry or services in small towns close to home. The OEM interviewed some young women who had migrated from villages to county cities or townships and worked in restaurants or shops. They seemed to be satisfied with their off-farm jobs. In addition, the OEM interviewed a few males who migrated seasonally within the same county to work in agriculture, for example digging holes to plant rubber. The wages they earned were low but still better than subsistent farming at home.

45. **Geographic Location and Topography.** The geographic location and topography of villages seemed to be important factors determining the choices available to rural households for escaping poverty. In the lowlands visited in Sichuan, households adopted poverty exit strategies based on intensifying and diversifying agriculture between the late 1970s and the mid-1980s. After that, migration to urban areas or other provinces became the main household strategy to escape from poverty. In contrast to the cases observed in Viet Nam, trade and other off-farm activities in rural areas were not important poverty exit strategies in the areas visited in Sichuan, in spite of very high population densities. Some households did invest in small shops or restaurants in small towns near their villages, but they did so after they had risen from poverty, mostly with savings accumulated when they worked as migrants outside of agriculture. After years of migration, they returned home for personal reasons, such as the need to take care of aged parents, and used savings to start their own businesses in their hometowns.

46. In contrast, the villages visited in Yunnan were located in mountainous areas with relatively abundant land and a climate suitable for a number of cash crops, such as tobacco, tea, sugarcane, and coffee. Population density was relatively low in these areas, which had poor roads, difficult communications, and minority residents with little education. These factors discouraged private investment in manufacturing and enhanced the comparative advantage of commercial agriculture over manufacturing. The OEM noted that county governments in Yunnan focused on attracting private firms to invest in commercial agriculture in their counties and developed measures to facilitate contract farming. This influenced farmers' selection of agricultural diversification as their main poverty exit strategy.

47. **Infrastructure.** Despite the belief that infrastructure investment automatically has a direct and significant impact on poverty reduction, the OEM found that the real impact of infrastructure investment on poverty reduction varied across regions depending on local conditions in the particular area. In the villages visited in Sichuan, the OEM found a weak relationship between investment in an expressway or local roads and rural households' rise from poverty. In these villages, most households escaped from poverty through the migration of younger members to cities or other provinces. Their ability to migrate was due to (i) the many jobs created by rapid economic growth in the PRC in the past 2–3 decades, (ii) an integrated labor market nationwide, and (iii) easy access to information about job opportunities arising from the long history of migration in rural Sichuan, where almost all villages had people working as migrants outside their province. The OEM noted that the lack of good infrastructure in the poor regions did not stop people migrating out of their villages, as long as jobs were available in the outside world where they had social connections. Despite the view that expressways enable or facilitate migration, interviewees said that they never used expressways; most migrants traveled

by train, which was cheaper. Indirectly, however, expressways had a significant impact on poverty reduction because of their great contribution to overall economic growth in the PRC.

48. Similarly, the real impact of rural infrastructure investment on poverty exit varied across regions depending on local conditions. The OEM observed in some regions only marginal impact on poverty reduction arising from investment in rural infrastructure, including roads and small irrigation systems. Most households rose from poverty through migration, and the infrastructure investment brought them with only small benefits. In Yunnan, however, the OEM observed significant impacts from rural roads and irrigation systems. These areas had high potential for developing commercial crops, especially tobacco, tea, and sugarcane. In some villages visited, most households rose from poverty by growing these crops, which were promoted by commercial firms that signed contracts with farmers and purchased their production. In these areas, good roads were critical to attracting commercial firms to engage in contract farming. The OEM interviewed technicians from a tobacco company, who stressed the availability of all-season roads as critical to their selecting a particular village for contract farming tobacco. Without good roads, they observed, transporting tobacco leaves might be delayed by days during the raining season, causing heavy losses to the company. In the sugarcane farming discussed in para. 24, the private boss financed the construction of a dirt road connecting the sugarcane fields to the village and the township road, charging farmers for construction by deducting an annual fee from his payments to farmers for their crops.

49. **Access to Education.** In the areas visited, education was available to all rural households. The cost of education and the location of schools, however, restricted poor children's access to education in some cases, especially to secondary schools, which were usually far from remote villages with low population densities and so entailed costly school boarding. Although students in the 9 years of compulsory education did not pay school fees, other school-related costs, including books, supplementary fees, and boarding expenses, placed a heavy burden on rural households. Recognizing these problems, a new policy of the central Government now exempts rural households in poor regions from paying book fees and supplementary fees and subsidizes boarding costs. It was too early to assess the impact of this new policy, which was just being implemented at the time of OEM visit. In some villages in Yunnan, the OEM found dropout rates high even among primary school students, largely because of the low value placed on education, language barriers, and costs.

50. **Access to Health Services.** While government hospitals, village clinics, and private doctors were readily available in all villages visited in Sichuan and Yunnan, the high costs of medicine and medical services were primary concerns named by most interviewees, including both poor and non-poor households, as the latter could easily become poor from misfortunes such as a serious illness afflicting family members. In one township hospital visited, the OEM noted that public investment in upgrading office buildings and equipment had only a marginal impact. Due to the high costs of the medical services, that hospital had few visitors even after the upgrade. Many interviewees said that they used simple medical services provided by private doctors in their villages instead of government hospitals, because village doctors charged much less. This issue has been brought to the attention of the central Government, which initiated new programs to mitigate this key concern of most rural households (para. 71, [ii]–[iii]).

51. **Access to Financial Services.** Farmers' difficult access to formal financial services was a frequently raised concern in the PRC and other countries. The OEM found, however, that the real situation varied significantly across regions. In the villages visited in Sichuan, most rural households had savings accounts in RCCs and received loans from them for various purposes, such as renovating houses, dealing with health problems, paying for children's education, and

purchasing inputs or equipment. Borrowing for agricultural activities was the least common situation, probably due to the small size of family farms and the largely subsistence nature of farming, especially in Sichuan. The requirements for obtaining loans from RCCs varied among regions. In Sichuan, the OEM visited one branch of an RCC that had provided loans of up to CNY100,000 for business or housing investments. These loans required collateral, preferably real estate in towns, valued higher than the loan. Loans of less than CNY20,000 were provided without collateral. About 70% of the loans were for less than 1 year, usually only a few months. The annual interest rate was 6%, paid quarterly. Default rates were low. Most rural households also borrowed from relatives and friends, especially for dealing with health problems and paying for their children's education. The poorest households had little repayment capacity and difficulty gaining access credit, either formal and informal.

52. In the villages visited in Yunnan, most rural households had access to formal credit. However, some interviewees could not borrow from RCCs because they had not repaid their previous RCC loans. In these areas, the main source of rural credit was the commercial companies and private bosses that contracted farmers to cultivate the cash crops tobacco, tea, sugarcane, and coffee. The bosses provided inputs to farmers and deducted repayment from revenues payable to the farmers after the harvest. They also provided credit for other purposes, such as medical bills, house renovation, and motorcycle purchases, with implicit interest charges paid by deducting them from harvest payments.

F. Issues, Underlying Causes, and Alternatives

1. Expressways and Poverty Reduction

53. Not all expressway projects have a direct impact on poverty reduction even when they are located in poor regions, because expressways are closed to local traffic except near exits. The OEM observed poor villages that remained poor even when they are located next to an expressway. They did not benefit directly from the expressway except from the resettlement program, which compensated their losses caused by expressway construction. In Sichuan, the project expressway had little direct impact on poverty reduction in the project areas, where most poor rise from poverty by migration and employment outside poor regions.

54. In minority-dominated Yunnan, migration was less common due partly to the language barrier and a culture of reluctance to go far from home. In the areas visited, many poor rise from poverty by engaging in commercial agriculture. In these areas, the project expressway had a direct impact on poverty reduction, as it facilitated moving some cash crops from non-poor areas to poor ones. A typical case was tobacco production, which had traditionally been located in central Yunnan, near the tobacco company in Yuxi City and in areas with good infrastructure. After the construction of expressways, including the project expressway, some of the old tobacco areas shifted to growing flowers, which had higher value, because the expressways enabled quickly transporting fresh flowers from farms to large cities. Consequently, the tobacco company in Yuxi shifted its investment focus to southern Yunnan, including some poor regions previously dominated by grain production. Some of the new areas rose from poverty after a few years of growing tobacco. Factors underlying the shift also included the high potential for commercial agriculture in southern Yunnan because of relatively abundant land, good soil, and a climate ideal for a number of cash crops.

55. Indirect impacts of expressways on poverty reduction, however, were significant, as observed by the OEM in all areas visited. In Sichuan, most of the households interviewed rose from poverty through the migration of some family members to non-poor regions and work

outside agriculture. The migrants escaped poverty and send home remittances to support their families. Migration became a major household strategy to escape poverty due primarily to two factors. First, many jobs became available following continued economic growth in the PRC in the past 2–3 decades, including formal employment such as in factories and informal jobs in construction and services.⁴ Second, the labor market in the PRC has become increasingly integrated as large-scale labor migration became prevalent in the past 1–2 decades. As a major portion of the national trunk highway system, the project expressways in Sichuan and Yunnan contributed to national economic growth and job creation in the PRC. Through labor migration, the benefits of national economic growth spread over the country as surplus labor from poor regions found employment in other regions with dynamic growth.

56. These findings suggest that evaluating the social and economic benefits of expressway projects, including in particular their poverty impacts, should go beyond the limits of conventional methodology, which narrowly focuses on increases in traffic volumes and reductions in travel time and costs in the project areas.⁵ The OEM found that the actual benefits of expressways go well beyond the areas in which they are located. The indirect impacts of expressways, although difficult to quantify, are much larger than such direct benefits as toll collections. That is why governments are willing to invest in expressways even in areas with low traffic, where the financial and economic internal rates of return (IRRs) are low and toll collection is insufficient to recover all costs, including operation and maintenance (O&M), investment, and related financial charges. If an expressway in these areas is a necessary part of the national trunk highway system, its investment is justified by its contribution to the system and macroeconomic growth, not by rising traffic volume in the project areas. A thorough understanding of this may reduce pressure on project staff to over-estimate traffic volume in project areas to produce IRRs acceptable for project approval. ADB post-evaluation studies have frequently found that IRRs estimated for projects were high at appraisal and low at evaluation.

2. Local Roads and Poverty Reduction

57. A typical justification for public investment in rural roads is the assumption that improved rural roads will reduce shipping times and costs for agricultural goods, improving farmgate prices and thereby reducing rural poverty. In the two projects examined in the PRC, the expected benefits of local roads included (i) improving the flow of goods, services, information, and tourists; (ii) facilitating farmers' access to markets and reducing transportation costs for products and inputs; (iii) greater economic diversification; and (iv) facilitating labor mobility. Indirect social benefits included increases in primary and secondary school attendance rates and improved access to health facilities and other public services.

58. The OEM found the assumptions above overly simplified and not always valid. In areas visited in Yunnan, the OEM observed that upgrading isolated roads to poor, small villages located in remote and poorly endowed mountainous regions had a marginal impact on poverty reduction. Poor resource endowment and adverse farming conditions meant the poor in remote villages had little surplus to sell and the improved roads, while making walking more convenient, did not mitigate lack of employment, the key cause of poverty, and therefore did not substantially change villagers' circumstances. A better alternative could have been upgrading

⁴ While construction and services are formal sectors, many migrants worked in them informally without a written contract.

⁵ ADB measures the benefits of road projects by a set of indicators typically including, among others, changes in (i) traffic volume and toll collection, (ii) passenger fares and freight rates, and (iii) accident and death rates. Estimating these benefits is limited to the areas crossed by project roads.

roads in other parts of the county that had high potential for commercial agriculture, such as areas adjacent to towns, or large villages in lowlands with sufficient land and favorable conditions, such as sufficient water, even if they are not poor. If the lack of an all-season road was the only constraint to commercial agriculture in non-poor areas, and if half of the farmland in these areas could shift from grain to cash crops after road development, demand for labor would stimulate seasonal migration of the poor from nearby poor villages to work in cash crop production, thus generating employment for surplus labor from poor villages.

59. The OEM found that the real impact of local roads on poverty reduction depends on local realities. In areas with high potential for commercial agriculture, where land is relatively abundant, the climate is particularly suitable for certain cash crops, water is sufficient, and the only key constraint is the lack of all-season roads, upgrading rural roads is worthwhile, as it may contribute significantly to poverty reduction. In Yunnan, the OEM observed a private boss who financed the construction of a dirt road to facilitate transporting sugarcane. While the terms he negotiated with farmers for repaying the road investment over 16 years seemed high to the OEM, interviewed farmers all accepted the terms because the alternative of not having the road would have been worse, as they would have had to rely on growing grain and remained poor.

60. In contrast, isolated roads in remote and poorly endowed areas short of arable land per capita had little real impact on poverty reduction, particularly if the roads did not link to growth centers or road networks. These roads provided small benefits to the residents along the roads, but did not generate conditions sufficient to lift them out of poverty. The remoteness of these areas and their low population densities made commercial firms uninterested in promoting cash crops because scale was insufficient to justify their investment. In these areas, the OEM found few commercial users of the roads upgraded by projects. As no private company invested in these remote areas, poverty reduction would be difficult without creating long-term jobs for surplus labor. As the villages and households remain poor after the project investment, road maintenance is another major concern after project completion, when no more free money comes from external sources. It seems that upgrading roads in these remote and poorly endowed villages should not have been the priority of poverty intervention at the current stage, when public resources are insufficient. The same funds might have brought more poverty reduction if they had been used to mitigate the key causes of poverty in the project areas through job creation.

3. Add-on Components in Expressway Projects

61. Both of the two expressway projects examined by the OEM included a component to upgrade rural roads located in poor regions. Even in the case where improved local roads had a direct impact on poverty reduction, the ADB requirement of including local roads in expressway projects had many negative effects, as observed by the OEM.

62. First, it disrupted the government planning process for local road development in the PRC, where the central and provincial governments are responsible for the construction and O&M of expressways and national highways, while county governments are in charge of local roads, including financing, construction, and O&M, with technical and financial assistance from the central and provincial governments. In the areas visited, all local governments had their own plans—long, medium, and short term—for local road development. Typically, the priorities in local road development plans included (i) linking the county capital to growth centers via expressways or major highways, (ii) using the expressway or highway sections that pass through their county as the spine of a road network in their county, and (iii) upgrading the local road network piece by piece as resources permit. Improving local roads occurred in the

following order: (i) county to county, (ii) county to township, (iii) township to village, and (iv) village to sub-village. The local road component in the ADB-financed expressway projects, however, had different priorities. To maximize poverty reduction impacts, consultants from ADB deliberately selected areas with the most poor beneficiaries, including remote sub-villages with low population densities and low economic returns for road development.

63. Second, the ADB requirement caused distortions by changing priorities in local road development. The ADB projects required the completion, within the project implementation period, of both the expressways and the local roads included in the projects. To comply with this requirement, local governments had to adjust their investment plans to make counterpart funds and other resources available for the “ADB roads,” which might not have been high priorities in their original plans. The adjustment was achieved at the cost of delaying investment in other roads that might have been more urgently needed or offered higher social and economic returns, though they might not be located in poor counties with a lot of poor beneficiaries.

64. Third, the ADB requirement resulted in inefficient use of human and organizational resources. Expressway investment and O&M in the PRC were implemented by expressway corporations that had specialized engineers. The ADB requirement made these corporations responsible for investment in local roads included in the projects in addition to expressways. This created inefficient use of human resources as professionals highly specialized in expressways supervised the development of rural roads. In addition, ADB insisted that, in Sichuan, at least 10% of its loan be used to finance local road improvement. The expressway corporation strongly resisted this requirement because it made the company repay the ADB loan without a mechanism for collecting tolls from users of local roads. Pressure from ADB to comply with loan covenants inhibited truth-telling at the grassroots. In fact, no ADB funds were used for local road improvement. Interviews carried out by the OEM with government officials in Sichuan and Yunnan showed that local roads under both projects would have been upgraded with or without the ADB projects, as they had already been included in the local government plans for upgrade before the projects, though with different priorities. The add-on components in ADB projects, at best, accelerated investment in these “ADB roads,” at the cost of distorting the original priorities for road development of the local governments.

65. In addition to complaints regarding local roads components, the OEM heard others from government officials about unreasonable requests from ADB that expressway projects include activities on AIDS control, women empowerment, or ethnic minority development. These add-on components, while satisfying ADB’s desire to address social issues, had certain negative effects. First, the expressway corporation lacked expertise to properly address these social issues, which were the responsibility of local governments. Second, the add-on components consumed time, money, and attention, and their inclusion in expressway projects distracted the executing agencies’ attention from their primary mandate of constructing high-quality roads at minimal cost. Third, the add-ons brought requirements for monitoring and evaluating the poverty impacts of the expressway project, for which a long-term international consultant and some short-term consultants had to be hired at high cost, primary to write monitoring reports for ADB.⁶ Scarce foreign currency could have been used to hire short-term experts needed to address critical issues that were beyond the capacity of local experts.

⁶ In fact, combining project monitoring with evaluation may not be appropriate. Monitoring is an ongoing activity during project implementation and should be conducted by the concerned executing agency based on its operational needs. Evaluation is an activity after project completion, when the executing agency has terminated its operation, and therefore should be conducted at a higher level, by the provincial or central government or ADB, who are more interested in the lessons identified in the evaluation than is the executing agency, unless the latter is assigned to implement another similar project.

66. If ADB is serious about getting real results instead of merely demonstrating its concern for rural poverty, standalone projects should be designed for rural poverty reduction. They should provide tailor-made solutions to local problems based on a thorough understanding of the key causes of poverty in particular project areas. The pressure for every project to include add-on components to obtain a direct impact on poverty reduction, and the practice of artificially inflating the number of poor beneficiaries in ADB projects to ensure their approval, has achieved more rhetoric than real results.

67. Instead of expecting every single project to have a direct impact on poverty reduction, it may be better to allow some projects, such as expressway projects, to focus sharply on promoting economic growth, which may significantly reduce poverty, albeit indirectly and unquantifiably. If this suggestion is acceptable, there is no need for such projects to set up a system to monitor and evaluate their direct impacts on poverty. Without pressure for every project to include add-ons or poverty impact monitoring, ADB nonconcessional loans, or ordinary capital resources (OCR), may still be attractive to many borrowing countries, including in particular middle-income countries like the PRC. The OEM found that ADB loans are attractive for their (i) long maturity of 25 years, (ii) relatively low interest rates, and (iii) other benefits associated with ADB's involvement in project financing, as domestic banks are more willing to finance a project that receives some financing from a reputable agency like ADB.

68. Consultations with government officials suggest that, without artificial burdens, some borrowers may be interested in taking OCR loans for projects that aim to spur economic growth, even if a small additional charge—say 0.5%—were levied on them. If this idea is acceptable, ADB may charge a small “poverty fee” on OCR loans for projects that aim to spur economic growth but do not include add-ons for poverty reduction or other social issues. Revenues collected from the poverty fee could be used to subsidize standalone projects for poverty reduction, such as those that provide low-cost loans for private investment in small-scale village infrastructure (see discussions in paras. 102–105 of the main text). Under these projects, participating financial institutions (PFIs) could use their own funds to finance infrastructure loans. Grants from ADB would be needed, however, to (i) provide interest subsidies that encourage private investment in rural infrastructure, (ii) partly cover the lending risks of PFIs in these operations, and (iii) partly compensate PFIs' administrative costs for this lending. This special evaluation study highlights that this suggestion needs pilot testing followed by vigorous evaluation of the pilot results before replication. Furthermore, setting the poverty fee rate needs intensive consultation and negotiation between ADB and the government agencies concerned, with the idea that the amount to be levied on OCR loans should not exceed the financial and non-financial costs currently imposed on borrowers by various ADB requirements.

4. Effectiveness of Government Interventions in Poverty Reduction

69. Government interventions to reduce poverty may be classified as (i) policy reforms and (ii) project investment. The OEM observed significant poverty reduction impacts from three policy interventions in the PRC. The first was the household responsibility system adopted in the late 1970s. By distributing land-use rights to individual rural families, this policy gave farmers substantial incentive to produce. In conjunction with progressive liberalization of government controls on agricultural marketing and prices, the policy reforms led to remarkable change in rural PRC. In 6 years, from 1979 to 1985, agricultural net value in the PRC increased by 55%, and agricultural productivity improved by 40%. At little financial cost to the Government, the policy interventions brought the largest poverty reduction in the history of the PRC. Many interviewees said that they escaped poverty during that period.

70. The second policy intervention that significantly reduced poverty was the relaxation of Government controls on labor migration since 1989. By allowing self-driven flows of surplus labor from poor regions to those with dynamic economic growth, mostly the coastal provinces, this policy enabled millions of migrants from poor regions to share the benefits of national economic growth. In addition, millions of relatives of the migrants also benefited, even those who remained in poor regions, as the migration reduced population pressure on the limited farmland, and remittances from migrants contributed to improving the living standards of their families. Again, the cost of this policy change to the Government was minimal.

71. The last policy interventions were the recent and ongoing policies that aim to address the so called *shan nong* issues, which refer problems and concerns of rural areas, farmers, and agriculture. These new policies include the following:

- (i) Elimination of agriculture taxes and other fees levied on farmers by local governments. This policy was announced by the central Government in 2003, to be implemented within 5 years. By late 2005, 27 of 31 provinces in the PRC had abolished agriculture taxes, and the rest, including Yunnan, had substantially lowered taxes and planned to eliminate them in 2006. All farmers interviewed greatly appreciated this new policy because, in the past, some of them had paid CNY150–CNY200 per capita, or CNY800–CNY1,000 (\$100–\$125) per household annually—a heavy burden on the poor and the near poor. Without targeting and leakage, this policy benefited all who had paid taxes and fees, with those who had suffered the most benefiting the most.
- (ii) The new rural health cooperative system, which was still in its pilot stage at the time of the OEM visit. While each province had its own specific policies affecting implementation of the system, the general idea was that participants, including all farmers in the pilot areas who chose to participate, would pay an annual contribution of CNY10 per capita to the system, which was matched by another CNY10–CNY20 from the central Government and CNY10 from the provincial government. It was too early to judge how well the new system operates, but rural households interviewed welcomed this idea as it addressed a key concern of most rural residents, poor or not.
- (iii) Subsidies on major medical bills for the hardcore poor. The so called “health salvation program” was also at pilot stage at the time of the OEM visit. The idea was to identify the most needy and issue them certificates that would entitle them to a 40% subsidy on their medical bills from major operations or being hospitalized. This program faced many operational difficulties, including in particular insufficient budgets to deliver the promised benefits, but its intention to address a key cause of poverty was appreciated.
- (iv) Exemption from book fees and other fees, as well as subsidies for school boarding costs during the 9 years of compulsory education. It was too early to evaluate this ongoing program, but its intention to address another key cause of rural poverty was much appreciated.
- (v) Minimal standard-of-living guarantees for rural residents, which provided cash to poor households to bring their annual incomes up to the official poverty line. After initial pilot testing in some provinces, this program was found to be unrealistic in poor regions, where local governments could not bear the financial burden. The OEM found that not all rural poor living below the poverty line needed subsidies. While those unable to work need welfare programs on a long-term basis, the productive poor could lift themselves out of poverty if the key causes of their poverty were mitigated or removed by project interventions.

72. In addition to policy interventions, the OEM studied the impact on poverty reduction of project interventions. In 1993, the PRC Government launched a large-scale program for poverty reduction, the 8–7 Program, which aimed to lift the remaining 80 million poor out of poverty during the remaining 7 years before 2000. Various projects were financed under that program, including (i) subsidized loans for poor households or enterprises that generate jobs for the poor; (ii) promoting agricultural production, including farm extension, input subsidies, and grants for small irrigation facilities; and (iii) rural infrastructure investment, including roads, electricity, drinking water systems, biogas for home cooking, and improved village paths and housing. Some of the infrastructure projects were implemented through a food-for-work mechanism, through which laborers from poor villages worked for in-kind payments.

73. In the early years, the 8–7 Program targeted poor counties. Nationwide, 592 counties were identified as “national poverty counties” and received annual grants from the central Government. In addition, some provincial governments identified their own “provincial poverty counties” and provided them with annual funds for poverty reduction. The number of the national poverty counties remained the same over the 11 years from 1994 to 2005, with only 25 counties leaving poverty—and being replaced by the same number of poverty newcomers. It appeared that the free grant from the Government provided a strong incentive for the national poverty counties to maintain their formal impoverished status. The OEM visited some of the national poverty counties and was impressed by the wealth displayed in the county capitals, which did not appear to be poor but retained the status that entitled them for the central Government grants.

74. In response to criticism about leakage from the targeting program, the Government narrowed the focus of targeting from counties to townships and villages. In 2005, the focus was further narrowed to sub-villages, called “natural villages” in the PRC, some of which have only 20–50 households. Meanwhile, the Government initiated a village program of poverty reduction and development planning that aimed to eliminate poverty in all villages, one by one, through an integrated intervention package. The new package was in fact a combination of earlier interventions, including rural roads, electricity, drinking water systems, village paths, small irrigation systems, farm extension, farm inputs, and subsidized loans. In the areas visited in Yunnan, this village program provided a grant of CNY200,000–CNY300,000 (\$25,000–\$37,500) to each participating village, allowing them to select interventions from a list of available options.

75. The OEM observed the following problems in the village program. First, the grant of CNY200,000–CNY300,000 provided small and temporary benefits to villagers but was too small to enable the sort of investment that could lead to significant poverty reduction. Second, providing even such a small grant to all poor villages in the PRC would place a huge financial burden on the Government, and the shortage of funding would seriously delay poverty reduction.⁷ A more serious concern is how ineffective the village program is in achieving its objective of poverty reduction. A recent ADB evaluation study⁸ found that free money from government projects encouraged beneficiaries to accept projects that brought them little benefit and did not lift them out of poverty. Similar cases were observed in Yunnan and Sichuan, where

⁷ In Mojiang County of Yunnan Province, for example, the OEM was told that about half of its 1,200 sub-villages were identified as poor. From 2003 to 2005, this county spent CNY6 million to implement the village program in only 30 poor sub-villages. Even assuming that the county can accelerate this process and cover 30 sub-villages in 1 year, implementing the village program in all 600 poor sub-villages will take 20 years.

⁸ ADB. 2005. *Special Evaluation Study on Effectiveness of Participatory Approaches: Do the New Approaches Offer an Effective Solution to the Conventional Problems of Rural Development Projects?* Manila. Available: www.adb.org/Documents/Reports/Evaluation/sst-reg-2005-01.pdf

projects brought little benefit to the poor because they did not mitigate the key causes of poverty.⁹ Moreover, government projects usually financed construction but not O&M, assuming that village leaders and communities would take care of project facilities. This assumption has not been supported in the cases observed, as poor communities usually had no financial resources and lacked strong incentives to take care of public facilities built by governments. A more commonly held belief seemed to be that those who invested should take care of the investment.¹⁰

⁹ In one model village visited in Yunnan, for example, all thatched roofs were replaced by concrete roofs financed by a grant from the village program. However, some poor households remained poor as the poor housing conditions were the result of their poverty, not its cause. In another poor village, the OEM found that some of the poorest households used oil lamps instead of electricity, even after their village was electrified by a project, because they could not afford electricity. In a poor township, the township clinic upgraded its buildings and equipment with free grants from a project, but few rural patients visited the clinic, as they could not afford its high charges for medicine.

¹⁰ In one village visited in Yunnan, for example, the OEM found that a drinking water system built through a free grant from a project a few years earlier had completely disappeared for lack of maintenance. Villagers returned to the old way of carrying water from afar.

CASE STUDY: MALAYSIA
Sabah Land Development Project (Loan 186-MAL)
Terengganu Tengah Township Development Project (Loan 344-MAL)
Second Terengganu Tengah Development Project (Loan 583-MAL)

A. Introduction

1. Selection of the Projects for Case Study

1. The Sabah Land Development Project (the Land Project) and two township development projects, the Terengganu Tengah Township Development Project and the Second Terengganu Tengah Development Project (the Township Projects), were selected as case studies for this special evaluation study (SES) in view of their expected roles in promoting rural development and reducing poverty. The Land Project, which was rated generally successful by the Asian Development Bank (ADB), aimed to develop land for palm oil production in Sabah, one of the poorest of Malaysia’s 13 states. The two Township Projects were located in a same district in the state of Terengganu. The first project constructed five new towns, and the second expanded them and established the sixth town. ADB rated both projects partly successful. Basic data of these projects are given in Appendix 5.

2. Fieldwork of the Operations Evaluation Mission

2. The ADB evaluation reports of the three projects above were used as supplementary information in preparing this SES. In addition, an Operations Evaluation Mission (OEM) visited Malaysia from 24 November to 14 December 2004 and conducted fieldwork in Sabah and Terengganu. During this period, the OEM held individual interviews with 29 government officers involved in implementing government policies, programs, or projects, including those working in federal, state, and village governments. Meanwhile, the OEM visited three of the six townships constructed under the two Township Projects and eight villages located in five land settlement schemes, interviewing 64 rural households, six managers of palm oil and wood processing industries, and four government employees at the grassroots: four teachers, one doctor, and one nurse. Table A4 provides a list of villages and projects visited.

Table A4: List of Villages and Projects Visited

State	District	Village	Projects
1. Terengganu	Dunggun	Pasir Raja	1. Trengganu Tengah Township Development Project 2. Second Trengganu Tengah Development Project
		Bandar Al Muktafi Billah Shah Ketengah Jaya	
2. Sabah	Beaufort	Buki Nuri Lumadan Kias	1. Sabah Land Development Project

Source: Operations Evaluation Mission.

B. Results of Poverty Exit

1. Poverty Reduced

3. While considering the official poverty line,¹ the OEM measured poverty in the villages visited using the local people's definition of poverty. According to interviewees, this has changed over time. Three decades ago, being poor meant not having enough food to eat. Today, it means a family lacking a stable income. In all areas visited, the OEM observed dramatic reductions in rural poverty, including almost an absence of poverty in many villages. The OEM made a point of finding for interviews a few poor households, which included some with many children and some with very low human capital. This observation seemed to be consistent with official data, which reported rural poverty in Malaysia falling from 58.7% in 1970 to 12.4% in 1999, including only 2.4% in hardcore poverty, which was defined as people living on income equal to half of the official poverty line.² Living standards had improved significantly in the households interviewed, with many farmers owning large, comfortable houses, cars, trucks, motorcycles, televisions, and other appliances. Many interviewees said that they or their parents had been poor 2 or 3 decades earlier, with limited literacy and little land. Most of them had risen from poverty by receiving 6–10 acres (2.4–4.0 hectares) of land per family from government settlement programs.

2. Sustainability of Poverty Exit

4. The sustainability of poverty reduction was highly likely in the areas visited, with several factors contributing. First, most households had regular and reliable incomes. Almost all households interviewed had farmland that generated stable annual income for them. The government settlement programs had provided participants with modest houses as well as farmland under young rubber or oil palm trees. The land, trees, and houses were provided to participants as long-term loans at low interest, to be repaid by the participants over 20–25 years through deductions from payments for rubber or palm oil. The settlement programs also established processing plants that provided permanent jobs for low-skilled workers who migrated from poor areas 2–3 decades ago. In addition to farming, many rural households engaged in off-farm activities in transportation, construction, small shops, restaurants, or other services, available through the abundant job market in Peninsular Malaysia. Finally, plantation jobs were readily available in both Terengganu and Sabah, which seemed unattractive to locals, especially the young generation, who considered the pay too low and the work too hard. Many plantations, both large and small, used foreign labor from neighboring countries to fill the labor shortage.

5. Second, continued economic growth in Malaysia over the past 3 decades has created significant employment in cities, and most rural youth have received education largely free of charge. After graduating from secondary schools, most left villages to work in industry or services in urban areas. Their departure reduced population pressure on farmland for the remaining rural population, enabling them to make a decent living from agriculture.

6. Third, household vulnerability was low as generous government policies provided free or highly subsidized medical care for all citizens of Malaysia. This policy originated in colonial

¹ The official poverty line in 1999 was RM510 per household per month in Peninsular Malaysia and RM685 in Sabah, assuming two adults and three kids per family (ADB. 2004. Poverty and Development Indicators Database, 23 February. Manila).

² Economic Planning Unit, Prime Minister's Department. 2004. Malaysia: 30 Years of Poverty Reduction, Growth and Racial Harmony. Case study presented at the Shanghai Poverty Conference, Shanghai, March.

times with a narrow focus on urban centers but was expanded to cover all rural areas after independence. Fourth, as continued economic growth strengthened the financial capacity of the Government, and as rural poverty fell to a minimum, the Government was able to provide generous subsidies to the remaining hardcore poor, which accounted for only 2.4% of rural residents. The OEM interviewed some of the hardcore poor, who lived in big houses provided by the Government free of charge and received free medical services, free education for their children, and a monthly allowance for each child in school. Finally, since most rural youths now work outside agriculture, low population densities in rural areas put little pressure on natural resources, which seemed to be well protected.

C. Poverty Exit Strategies

7. Agricultural intensification and diversification did not seem to be an important strategy for escaping poverty adopted by the households interviewed in Malaysia. The OEM observed four types of poor households with different poverty-exit strategies and results. The first type were smart, hard-working, highly motivated, aggressive, and business-oriented, some having accumulated savings and purchased farmland for their children. This group found multiple jobs, including in particular employment outside agriculture. Without participating in government settlement programs, farmers in this group took advantage of (i) economic growth and jobs created by the private sector and (ii) education and training opportunities provided by the federal and local governments. The OEM interviewed some of these households in Terengganu, who took advantage of growth in the gas and oil industries in that state and worked part-time in construction in nearby towns, in addition to tending their oil palms or working in oil mills. In Sabah, some settlers bought trucks and transported oil palm products for others, in addition to tending their own small plantations.

8. Farmers in the second group were weaker, including laborers with fewer skills and less aggression. These people rose from poverty by participating in government land settlement programs or being employed by the palm oil mills set up by subsidiary companies owned by government agencies. The farmland and permanent jobs they received from the government programs provided them with a reliable source of regular income.

9. The third group included second generation settlers, who might have become poor if they had remained in villages, since there was no more land for distribution to the rising generation in most areas visited. This group rose from poverty by migrating to cities and finding employment in manufacturing or services. Their secondary education was provided by the Government largely free of charge, and they obtained better-paid jobs in the private sector, including in particular factories established by foreign investors. Rapid industrialization in Malaysia since the 1970s had brought large-scale rural–urban migration, and the rural population fell from 56.7% of the national total in 1980 to 38.2% in 2000.

10. The trend toward migration, however, was slow in Sabah, where potential migrants faced more difficulties and higher costs than did those in Terengganu. The manufacturing and service sectors in Sabah did not grow as dynamically as in Peninsular Malaysia because of the high costs of energy and transportation in that state, so off-farm jobs were not plentiful. While jobs were abundant in Peninsular Malaysia, migration from Sabah was relatively expensive. In Sabah, the OEM found that young people carefully calculated migration costs and risks before leaving their villages. The factors they considered included transportation costs, the risks and expenses of job hunting including housing and food for the first days in the city, wages, the urban cost of living relative to rural, and the possibility of unexpected difficulties. Finally, they

considered the government subsidies that they might receive if they remained in poverty, which probably provided a sort of incentive for staying in villages.

11. The last group, the weakest, remained in poverty despite favorable conditions. This group included the disabled who relied on welfare assistance, young school dropouts with many children, and those of very weak character with low human capital, lack of motivation, and ease of contentment. The choices of strategies for rising from poverty were limited for people in this group. Migration to cities and employment in manufacturing and services were difficult for them because they had few social connections outside their villages. They could not get high-paying jobs for lack of qualifications, and they were not interested in low-paying jobs considering the higher cost of living in cities, as well as the perceived uncertainties of job hunting in an unfamiliar city. They did not like plantation jobs that were readily available in their villages because of the low wages and difficult working conditions compared with factory jobs in cities. Finally, these people could as a last resort obtain free government subsidies, which were limited but seemed to be sufficient to support a low standard of living.

D. Household Resources

12. Household resources include physical, natural, financial, human, and social assets. In the cases studied, the rural poor had few resources other than their family labor. Initially, these poor had no land or only small parcels insufficient to support their families. By participating in government settlement programs, many of them received farmland as long-term loans repayable with income from future harvests. By providing the poor with a stable annual income, the farmland facilitated their sustainable rise from poverty.

13. Meanwhile, participants in settlement programs received from the government basic houses as another loan repayable over a long period. The OEM found that inadequate housing, equipment, and other physical assets were the results of poverty instead of its causes. After rising from poverty, most interviewed families improved the houses they had originally received through government programs and purchased furniture, televisions and other electronic goods, cars, trucks, and motorcycles.

14. In the cases studied, most of the poor had few savings or other financial assets for as long as they were poor. However, most accumulated savings after rising from poverty with stable income from their oil palm estates or wage jobs.

15. The largest variations observed among the poor related to their human and social capital. Initially, most of the poor had little education. Many of the first generation settlers had only elementary schooling, and some were even illiterate. In spite of this disadvantage, some poor had good human capital unrelated to schooling, such as the capacity to be self-taught, hard-working, devoted to their families, willing to take risks, highly motivated, and, finally, business-oriented. Some interviewees endeavored to accumulate savings and purchased additional farmland when available, which laid a solid foundation for their permanent rise from poverty—for themselves and their children as well. Some of the poor were, though little educated, particularly good at making social connections, which facilitated establishing their own businesses or finding jobs in cities.

16. The OEM made a point of interviewing households that remained in poverty and had limited household resources, such as families with little or no land. Some young couples inherited small parcels of land from their settler parents, which were insufficient to provide a decent living from agriculture. Some settlers sold the farmland received from the government

programs. These poor had few savings or other financial assets for lack of an income stable and sufficient enough to support large families. Most of the remaining interviewed poor had low human capital. Some went to school for years without learning much, and others dropped out for lack of interest in studying. Many had few if any social connections, which discouraged them from migrating to unfamiliar cities. These people were typically risk averse, less willing to try new jobs, or lacking motivation to work hard for a better living.

E. Context and Conditions

17. The context and conditions in which the rural poor lived influenced the options available to them to escape poverty, their selection and implementation of them, and the results. In the areas visited, the following factors seemed to be most critical to poor people's rise from poverty.

1. History

18. Malaysia's history has strongly influenced politics and government policies, which shaped the context and conditions faced by the rural poor. During British colonial rule, much of the economy was controlled by British capital invested in rubber plantations, tin mining, and timber production, most of the products of which were exported. Most of the labor in these activities were migrants from China or India who came to Malaya in the 19th and early 20th centuries. The rest of the economy consisted of subsistence farming and fishing carried out by Malays, who represented the great majority of the rural population at that time. In the urban areas, small processing industries and services were largely controlled by Chinese.

19. Malaysia was thus a multiracial and multiethnic society at independence, with more than half of the population being Malay, 37% Chinese, and 12% Indian. Most of the Malays lived in rural areas, as did tribal groups, who were the poorest in the country. The Chinese concentrated in urban areas and had substantially higher incomes. The Indians also concentrated in the urban areas, running small businesses or working as unskilled wage laborers.

2. Politics and Government Policies

20. The ethnic conflict that took place in 1969 had a dramatic impact on the design and implementation of Government policies in the last 3 decades. One of the most important results was a new economic policy that defined social unity as the sole goal of national development policies. With a two-pronged strategy to achieve national unity, the Government was strongly committed to poverty eradication and righting economic imbalances among racial groups. In this political context, a set of Government policies and projects were designed to reduce poverty and improve income distribution, including the provision of free or highly subsidized education and health services to all citizens and highly subsidized housing for low-income families together with supplies of water, electricity, and other basic services. Other programs distributed government-owned land to the landless poor and provided long-term, subsidized financial support for developing it. Price controls on rice and other essential foodstuffs were implemented, stabilizing prices for both rice farmers and consumers, and so dramatically reducing the potential distress price fluctuations could cause on poor and near-poor families. Finally, policies were implemented to reduce income inequalities between *Bumiputeras* (Malays) and other ethnicities, including preferential treatment for *Bumiputeras* in public sector employment, efforts to increased *Bumiputeras'* presence in private businesses, and greater access for them to education and training through fellowships.

21. Meanwhile, the country has been governed since the 1970s by a political coalition with strong leadership that provided continuity to the application of national strategies. Policies were implemented through national plans that ensured an active and direct role in the economy for the Government. This stable political context created a favorable environment that encouraged private investment and supported government priorities in terms of poverty reduction and equitable income distribution.

3. Economic Growth

22. Economic growth in Malaysia was led by the private sector. However, the Government played a key role in fostering an attractive environment for private investment. First, the sole goal of national unity and appropriate macroeconomic management have helped the country experience long-term stability over the past 3–4 decades, compared with some other Asian countries that suffered periodic turmoil. Political stability, social harmony, and continuity in Government policies played a critical role in attracting foreign direct investment to Malaysia. Second, the Government invested heavily in highways, electric power, telecommunications, and other basic infrastructure, which reduced transportation and energy costs and encouraged foreign companies to invest in the country. Third, with the explicit goal of attracting foreign direct investment, the Government created free trade zones and offered tax breaks for foreign investors. Finally, the Government ensured all citizens' easy access to education, which was provided free or highly subsidized. For the hardcore poor, an education allowance was provided to the parents to cover school-related expenses such as transportation. Many foreign companies were attracted by the low cost of educated labor in Malaysia, considering their good skills and training potential.

23. As a result, Malaysia experienced outstanding economic growth that reached an annual average of 6.7% during 1971–1990 and 7.0% during 1991–2000. The manufacturing sector led, dominated by textile processing in the 1970s and 1980s, and by electronics and high-tech industries since the 1990s. The boom of these industries provoked major changes in the labor market, which went from high unemployment to full employment and, more recently, labor shortages, especially in Peninsular Malaysia. In Sabah, however, unemployment remained a problem in some areas visited, where access to off-farm employment was not readily available, primarily because industries grew relatively slowly in Sabah, and migrating from Sabah to Peninsular Malaysia was expensive.

24. Rapid economic growth contributed significantly to poverty reduction in Malaysia. First, growth brought substantial tax revenues, with which the Government implemented a wide range of programs for poverty reduction. Second, private investment in manufacturing and services created employment for both urban and rural residents, and the resulting labor shortage fueled a slow but steady rise in wages. Industrial growth concentrated on the west side of Peninsular Malaysia, attracting Malaysian migrants from other states, including Terengganu and Sabah. In the past 2 decades, Terengganu also developed oil and gas industries, which attracted people from rural areas to work in them and related construction projects. However, industrial growth was slow in Sabah, due largely to high energy and transportation costs there. Nevertheless, this state shifted from relying mainly on timber to developing oil palm plantations, with some growth in palm oil processing as well as tourism-related services.

4. Rural Institution

25. The OEM did not find active informal organizations in the villages visited in Terengganu or Sabah. Instead, government agencies played key roles in the rural areas, especially in areas

with land settlement schemes. These agencies provided farmland, low-cost housing, and farm inputs to settlers at the beginning of the settlement programs. After 20–25 years, they also financed the investment costs of replanting oil palm or rubber trees. The land and land development, houses, farm inputs, and replanting financing were provided to settlers as long-term loans with subsidized interest charges. A new government program allowed aged settlers who did not want to continue managing their farms to turn over their farmland to government agencies, which directly managed the plantation operations, with participants receiving land dividends. The participants also had the option of working in the plantations as wage earners. Finally, the palm oil processing factories owned by subsidiary companies of the government agencies provided employment to workers, together with low-cost housing and insurance benefits.

26. At the grassroots, village heads played a major role. They received a government allowance and were mandated to report to governments village needs and to arbitrate conflicts among villagers. In some settlement schemes, cooperatives were organized with assistance from government agencies and engaged primarily in transporting harvests and transferring marketing revenues to members.

5. Government Projects

27. Government projects were commonly used as instruments to reduce rural poverty. The Government invested in basic infrastructure to attract private investment, which indirectly generated substantial employment and contributed to full employment in the country. Meanwhile, the universal provision of education and training opportunities enabled many young people to find high-paying jobs. Access to free or highly subsidized medical services for all citizens, both urban and rural, substantially reduced individual families' sickness-related risks. Government settlement schemes directly provided avenues out of poverty by distributing land. Among the many projects financed by ADB, the OED examined the Land Project in Sabah and the two Township Projects in Terengganu.

28. The Land Project was implemented from 1975 to 1982 and financed by a \$14 million loan from ADB. It was a part of a large government investment program in Sabah, which developed 125,000 hectares (ha) of land for rubber and oil palm production. The project was implemented by the Sabah Land Development Board, which developed around 4,300 ha of land under it. Targeting the landless poor, the Land Project provided farmland and houses to participants as long-term loans, repayable from revenues generated through palm oil production. In addition, palm oil processing factories generated employment, albeit on a relatively small scale.

29. The OEM visited the settlement scheme in Klias village of Sabah's Beaufort District, which was created in 1977 under the Land Project. At the time of the visit in late 2004, the village had 227 families farming 996 ha of land. Under the scheme, each family received 10 acres (4 ha) of land already planted with oil palms, together with a small wooden house with a living room, kitchen, bathroom, and two bedrooms. These assets were provided to participants as loans to be repaid over 20–25 years through deductions from palm oil payments to participants, who submitted their harvest to government marketing agencies.

30. While confirming the positive impact of the Land Project on poverty reduction, the OEM observed some weaknesses in it. First, the project design overestimated participant interest, with the actual participation of 681 families at the end of 1981 substantially below the target set

at appraisal of 4,314 families.³ Due to the shortage of eligible candidates, some non-poor also participated in the settlement schemes and benefited from the generous government subsidies, as observed by the OEM and reported by earlier reports from ADB. Second, 10 acres of oil palms is sufficient to lift a poor family out of poverty but too small to be economically efficient. The OEM observed low yields in the small estates run by settlers compared with the high yields achieved in large plantations run by commercial companies. Third, oil palms need replacing every 20–25 years, and most visited settlers could not finance the high cost of replanting. Moreover, as many of the first generation of the settlers grew old, and their children did not want to work in plantations, farm management deteriorated. To address these issues, the government agencies concerned initiated the new program to allow individual farmers to turn their land over to the government plantations and work for wages, if they so wished, while receiving regular dividends.

31. The two Township Projects were financed by two ADB loans of \$16 million and \$30.2 million as part of a master plan for developing the state of Terengganu. The first project was implemented from 1979 to 1984, and the second from 1983 to 1990, by the Terengganu Tengah Development Authority, a federal Government agency for regional development established in 1973 with a mandate in township development and maintenance. Both projects were located in Dungun District, an area dominated by rubber and oil plantations. The projects financed town development works, regional water supply, low-income housing, and feeder roads.

32. ADB post-evaluation studies rated the two projects partly successful. Among the many problems identified, the primary one was oversupply of infrastructure, especially in terms of water. With an anticipated population of 75,750, the six towns created by the projects reached an actual population of 35,109 by 1994, about 4 years after the second project ended, or less than half of the appraisal target. One major cause of the problem was the difficulty of selecting an appropriate site for township development, which demands accurate forecasts of future economic and population growth. These towns were created in the rural areas, but the rapid growth of oil and gas industries along the coast of Terengganu attracted young people from rural areas, beating out the small towns created by the projects in attracting wage workers. By the time of the OEM visit in 2004, the towns' population had increased significantly over figures reported by ADB in 1994. However, many town residents did not work there, living in the towns to take advantage of low-cost housing and commuting in their own vehicles to oil and gas jobs on the coast.

F. Issues for Discussion

1. Poverty Exit and Underlying Factors

33. Agricultural intensification and diversification—two policies promoted by governments in many developing counties—were not important strategies for rising from poverty adopted by the households interviewed in Malaysia. While many of the first generation to rise from poverty did so by obtaining farmland from government settlement programs, most of the second generation migrated to find employment outside agriculture. Many of the second generation might have become poor if they had remained in villages and relied on agriculture, as there was no more land to distribute to them. Today, agriculture remains critically important to Malaysia for food security and export earnings. Its role in providing avenues out of poverty, however, seemed to be limited. While higher crop yields increased farm income, government interventions to promote agricultural development helped mainly those with farmland instead of the landless

³ ADB. 1982. *Project Performance Audit Report on the Sabah Land Development Project in Malaysia*. Manila.

poor, because the higher crop yields did not generate significant employment. It is interesting that even in a country initially with relatively abundant land resources such as Malaysia, manufacturing and services were the sectors that provided employment for most of the second generation of rural residents, with jobs in agriculture sharply reduced in the past 3 decades. While many of the remaining poor lived in rural areas and relied on agriculture, it seemed that land-based agriculture could not provide them with avenues out of poverty because these poor had little land. Future efforts to eradicate the remaining poverty may have to focus on job creation outside agriculture.

34. Government interventions in Malaysia strongly shaped the context and conditions faced by the rural poor, influencing household strategies selected for escaping poverty and their results. To the surprise of the OEM, rural institutions, especially informal ones, did not seem to critically influence household strategies. The underlying factor seemed to be strong government interventions that provided the poor with farmland, housing, and investment financing, as well as taking measures, such as highly subsidized education and health services, to mitigate shocks. In terms of household resources, the most significant variations were found in human capital factors unassociated with schooling, as well as in social connections, which strongly influenced household decisions on migration, the most common strategy. A possible explanation is that initially all poor households had little physical or financial capital or formal education. Yet variations in social and human capital unrelated to schooling became important determinants in households' selection of strategies to escape poverty. This was so in Malaysia probably because migration to work outside agriculture played the most critical role in poverty reduction, fueled by continued economic growth and the availability of many jobs in cities, where employment depended heavily on personal characteristics and social connections.

35. Some of the avenues out of poverty were provided directly by government projects such as settlement schemes that gave farmland to participants, or the palm oil processing facilities that employed unskilled migrants from rural areas. By providing long-term employment, these projects effectively reduced poverty but apparently only for the first generation of the settlers, as no more state-owned land existed for distribution to the second generation of rural residents, especially in the Peninsular Malaysia. Moreover, the Government, increasingly concerned about inefficiency and the need to restore budgetary equilibrium, substantially constrained the creation of agro-processing facilities for unskilled laborers in rural areas.

2. Trade-Off Between Short-Term Inefficiencies and Long-Term Stability

36. Efficiency was not a stated objective of government policies in Malaysia. The OEM noted that strong government interventions to reduce social and economic imbalances among ethnic groups, and to curb income inequality, might have caused, to some extent, inefficiencies in the short run. However, racial harmony and social stability achieved through the principle of growth with equity encouraged foreign direct investment, created jobs, ensured continued economic growth, and resulted in greater efficiency in the long run. In addition, Government provision of free or highly subsidized medical services—though at the cost of a certain degree of inefficiency and placing a financial burden on the Government—prevented shocks such as serious illness of family members that might otherwise have drawn some weak individuals and the near-poor down into poverty. Over time, the costs of universally providing free or highly subsidized medical services seemed to have fallen to an extent, as some of the non-poor used private clinics instead of public hospitals, leaving public hospitals to low-income groups.

3. Eradication of the Remaining Hardcore Poverty

37. Despite the favorable context and conditions in Malaysia, including continued economic growth and easy access to education and health services, about 5% of the population remained poor in 2004, including the 2.4% of hardcore poor. Interviews with some of the remaining poor found that they faced less favorable conditions and had fewer household resources. First, their villages were located in remote areas with high transportation and communication costs, leaving them relatively isolated from the dynamics of the national economy. Second, they had little human capital, some having spent years in school without learning much, and some dropping out. Third, they had few or no social connections outside their villages and were discouraged from migrating to cities to search for work. Fourth, they seemed to be less aggressive and easily contented, more risk averse and less willing to face the unfamiliar world, and generally lacking motivation to work hard for a better living.

38. While public investment in education facilitated the rise of most of the poor, especially the young generation, out of poverty, formal education and schooling did not seem to be effective or sufficient for this weakest group, who might suffer learning difficulties or whose parents did not value education. It seemed that additional efforts were needed to help this group build human capital unassociated with schooling, such as character, and social capital such as connections in cities. One suggestion is to link this group to the more dynamic segments of the society through mentor programs run with financial incentives given to some aggressive non-poor, who would be encouraged to help the poor in their villages by assisting them in job hunting or coaching them in self-employment. With appropriate incentives, the non-poor may effectively contribute to reducing poverty in their communities.

BASIC DATA OF PROJECTS SELECTED FOR CASE STUDIES

Rural Credit Project (Loan 1457[SF]-VIE)

A. Project Design as stated in the report and recommendation of the President

Project Objective	The objectives of the project are to (i) increase incomes of rural people and expand productive employment by increasing the supply of short- and medium-term credit to the rural sector and (ii) strengthen the rural financial system to increase the diversity and competitiveness in the system and provide better services.
Project Scope	<p>The two components are as follows:</p> <ul style="list-style-type: none"> (i) Provide credit lines to the Viet Nam Bank for Agriculture to finance viable medium-term farm and nonfarm investments in the private sector, and to the Central Credit Fund (CCF) to finance short-term subloans made by the people's credit funds (PCFs) for viable economic activities in the private sector. (ii) Support the CCF, PCFs, and Viet Nam Bank for Agriculture to improve their institutional capacity to provide better rural financial services through staff training.
Expected Project Benefits	<p>The expected benefits are as follows:</p> <ul style="list-style-type: none"> (i) improved supply of medium- and short-term credit to rural entrepreneurs and farmers; (ii) improved income of the households receiving subloans; (iii) direct benefit for about 102,000 rural households, including about 25,000 poor members of PCFs; (iv) contribution to diversification of rural economic activities through the development of a wide array of agro-processing and other rural industries; (v) generation of about 63,000 person-years of productive employment, reducing acute underemployment in rural areas; (vi) significant poverty reduction due to growth and employment generated; (vii) improved access to longer-term funds and credit; (viii) better financial services in rural areas in general; (ix) poor members of PCFs enabled to use yield-increasing inputs such as better seed and fertilizer and to diversify their activities; and (x) benefits to low-income households, in particular those that currently lack access to saving facilities.
Project Cost	<p>Estimated at appraisal: \$75.8 million. Actual: \$72.3 million</p>

Financing Asian Development Bank (ADB) loan: \$50.0 million
 PFIs:^a \$15.0 million
 Subborrowers: \$10.8 million

B. Key Dates

Loan Approval 12 September 1996
 Loan Effectiveness 3 April 1997
 Project Completion Estimated at appraisal: December 2000
 Actual completion: December 2000
 Loan Closing Estimated at appraisal: 30 June 2001
 Actual closing: 30 October 2002

C. Executing Agency State Bank of Viet Nam

D. Project Preparation Technical Assistance (TA) 2286-VIE: Rural Finance (project preparatory technical assistance [PPTA])
 TA amount: \$586,000
 Date of approval: 12 January 1995
 TA 2991-VIE: Second Rural Credit (PPTA)
 TA amount: \$150,000
 Date of approval: 24 February 1998

E. Related Activities

Technical Assistance TA 3227-VIE: Strengthening Corporate Governance at Viet Nam Bank for Agriculture and Rural Development
 Approved amount: \$1.0 million
 Date of approval: 30 December 1999
 TA 3568-VIE: Support of Rural Business
 Approved amount: \$1.0 million
 Date of approval: 12 December 2000
 Loan Loan 1802-VIE: Rural Enterprise Finance Project
 Approved amount: \$80.0 million
 Date of approval: 12 December 2000

F. ADB Missions

Number of Loan Review Missions 5
 Inception Mission 25–27 November 1996

^a Participating financial institutions (PFIs) include State Bank of Viet Nam, Viet Nam Bank for Agriculture, CCF, and PCFs.

Last Review Mission	6 November 2002
Project Completion Report (PCR) Circulation Date	25 September 2003
PCR Rating	Successful

Rural Infrastructure Sector Project (Loan 1564[SF]-VIE)

A. Project Design as stated in the report and recommendation of the President

Project Objective	The objectives are to improve basic infrastructure in rural areas of Viet Nam to remove constraints on agricultural and off-farm production, and to generally improve standards of living. The project will provide funds to provincial governments to rehabilitate, upgrade, and build critical rural infrastructure works such as rural roads, bridges, culverts, markets, small-scale water resource schemes, potable drinking water facilities, storage areas, and community service buildings in accordance with general national and specific local priorities.
Project Scope	<p>Components include</p> <ul style="list-style-type: none"> (i) rural civil works, under which the funding of priority provincial subprojects will take place; (ii) project management, under which support will be given to help the national Government administer, guide, and monitor project implementation by the provincial governments; and (iii) subproject preparation assistance that will provide funding to provincial governments, especially in backward and isolated provinces.
Expected Project Benefits	<p>The expected benefits are as follows:</p> <ul style="list-style-type: none"> (i) acceleration of the Government's ongoing program of construction of critical public infrastructure in rural areas; (ii) reduced costs and travel time resulting in a large increase in local economic and social activity; (iii) optimized use of past investments resulting in large returns from relatively modest investments; (iv) reduced costs and time spent fetching drinking water, reducing unproductive labor and raising overall health standards; and (v) strengthened Government capacity to plan and implement its infrastructure development program and hence increased efficiency of investments made using the Government's own resources.
Project Cost	Estimated at appraisal: \$150.0 million
Financing	<p>Asian Development Bank (ADB) loan: \$105.0 million Caisse Francaise de Développement (CFD): \$15.0 million Government: \$15.0 million Beneficiaries: \$15.0 million</p>

B. Key Dates

Loan Approval	23 October 1997
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Loan Effectiveness	30 April 1998
Project Completion	Estimated at appraisal: 30 June 2004 Extended to: 31 December 2004
Loan Closing	Estimated at appraisal: 31 December 2004 Extended to: 28 September 2005
C. Executing Agency	Ministry of Agriculture and Rural Development (individual provincial governments will be involved as implementing agencies through their departments of agriculture and rural development and, in some cases, their departments of transport)
D. Project Preparation	TA 2635-VIE: Rural Infrastructure Sector (project preparatory technical assistance [PPTA]) TA amount: \$600,000 Date of approval: 28 August 1996
E. Related Activities	
Technical Assistance	TA 2838-VIE: Training for Rural Infrastructure Development TA amount: \$1.0 million Date of approval: 11 August 1997
F. ADB Missions	
Number of Loan Review Missions	12
Last Review Mission	27 September–2 October 2004

Chengdu–Nanchong Expressway Project (Loan 1638-PRC)

A. Project Design as stated in the report and recommendation of the President

Project Objective	The main objectives are to support the economic and social development of the eastern part of Sichuan, the Chengdu–Nanchong corridor, by alleviating transport bottlenecks on existing roads. A program of upgrading provincial and country roads will also help reduce poverty in the designated poor countries, in which the average income per capita is CNY1,123, only 54% of the national average.
Project Scope	<p>Components include</p> <ul style="list-style-type: none"> (i) construction of about 208 kilometers (km) of controlled-access toll expressway from the Chengdu outer ring road to the city of Nanchong, including interchanges with toll facilities, expressway links, and service and parking areas; (ii) reconstruction and/or upgrading of about 300 km of provincial and country roads in poverty counties; (iii) procurement of equipment for traffic monitoring and surveillance, toll collection, axle load testing, and road maintenance and inspection; (iv) land acquisition and resettlement of affected people; and (v) consulting services for construction supervision and training.
Expected Project Benefits	<p>The expected benefits are as follows:</p> <ul style="list-style-type: none"> (i) necessary conditions created to accelerate economic and social development in a poor area; (ii) measurable benefits in terms of savings in time and vehicle operating costs for existing and generated traffic, and avoided accident costs, generating a financial internal rate of return of 8.3%; and (iii) improved access to markets and social services for residents of numerous towns and villages along the route and in the designated poor areas in eastern Sichuan.
Project Cost	<p>Estimated at appraisal: \$667.2 million Actual: \$763.2 million</p>
Financing	<p>Estimated at appraisal: Asian Development Bank (ADB) loan: \$250.0 million Ministry of Communications: \$ 180.0 million State Development Bank: \$60.0 million Sichuan provincial government: \$177.2</p> <p>Actual:^a ADB loan: \$250.0 million</p>

^a Data taken from ADB. 2004. *Project Completion Report on the Chengdu-Nanchong Expressway Project in the People's Republic of China*. Manila.

Ministry of Communications: \$141.0 million
 China Development Bank (formerly State Development Bank):
 \$69.0 million
 China Construction Bank: \$97.0
 Sichuan provincial government: \$215.2

B. Key Dates

Loan Approval	10 November 1998
Loan Effectiveness	24 August 1999
Project Completion	Estimated at appraisal: 30 June 2003 Actual completion: 30 June 2003
Loan Closing	Estimated at appraisal: 31 December 2003 Actual closing: 24 August 2004

C. Executing Agency Sichuan Province through the Sichuan Provincial Communications Department

D. Project Preparation TA 2777-PRC: Chengdu to Nanchong Expressway (project preparatory technical assistance [PPTA])
 TA amount: \$600,000 (Japan Special Fund [JSF])
 Date of approval: 7 April 1997

E. Related Activities

Technical Assistance	TA 1972-PRC: Policy and Institutional Support in the Road Sector Approved amount: \$1.2 million (JSF) Date of approval: 9 November 1993
	TA 2178-PRC: Provincial Highway Network Planning Approved amount: \$600,000 (JSF) Date of approval: 29 September 1994
	TA 2573-PRC: Review of Highway Design Standards Approved amount: \$420,000 Date of approval: 24 May 1996
	TA 3086-PRC: Regional Road Sector Study Approved amount: \$1,185,000 (JSF) Date of approval: 13 October 1998

F. ADB Missions

Number of Loan Review Missions	7
Inception Mission	19–23 April 1999

Last Review Mission	13–21 August 2004
Project Completion Report (PCR) Circulation Date	17 December 2004
PCR Rating	Successful

Southern Yunnan Road Development Project (Loan 1691-PRC)

A. Project Design as stated in the report and recommendation of the President

Project Objective The objective is to support the economic and social development of the southern part of Yunnan Province by removing a major road transport bottleneck between Yuanjiang and Mohei, and to help create the conditions necessary to reduce poverty by providing better access to the economic mainstream for nationally designated poor communities. The project will also promote and extend sector reforms initiated under previous ADB-financed projects in areas related to (i) highway design standards and construction quality, (ii) road safety, (iii) pricing policy for road users, and (iv) mobilization of nongovernment financing. A long-term objective is to promote regional economic cooperation in the Greater Mekong Subregion (GMS) by improving a section of the road linking Kunming in the People’s Republic of China (PRC) and Chiang Rai in Thailand, and facilitating cross-border trade.

Project Scope Components include

- (i) construction of 147 km of a four-lane controlled-access toll expressway from Yuanjiang to Mohei, including interchanges, bridges tunnels, and service areas;
- (ii) upgrading about 540 km of feeder roads;
- (iii) procurement of equipment for traffic engineering and monitoring, toll collection, quality control, road maintenance and safety, tunnel ventilation and monitoring, and feeder road upgrading;
- (iv) land acquisition and resettlement of affected people; and
- (v) consulting services for project management, construction supervision, training, and project monitoring and evaluation.

Expected Project Benefits: Expected benefits include the following:

- (i) accelerated economic and social development in designated poor countries and townships of Yunnan Province;
- (ii) quantifiable benefits in terms of savings in time and vehicle operating costs for existing and generated traffic, and avoided accident costs, that produce an economic internal rate of return of 17.4%;
- (iii) improved access to markets and social services for the residents of the numerous towns and villages along the route and in the designated poor areas in southern Yunnan Province; and
- (iv) facilitated regional economic cooperation in the GMS.

Project Cost Estimated at appraisal: \$770.3 million
 Actual: \$985.5 million

Financing	<p>Estimated at appraisal: Asian Development Bank (ADB) loan: \$250.0 million Ministry of Communications: \$102.2 million Ministry of Finance: \$3.0 million Yunnan provincial government: \$258.5 million China Development Bank: \$156.6 million</p> <p>Actual: ADB loan: \$250.0 million Ministry of Communications: \$102.2 million Ministry of Finance: \$3.0 million Yunnan provincial government: \$473.7 million China Development Bank: \$156.6 million</p>
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B. Key Dates

Loan Approval	24 June 1999
Loan Effectiveness	18 May 2000
Project Completion	Estimated at appraisal: 30 September 2003 Actual completion: 5 January 2005
Loan Closing	Estimated at appraisal: 31 March 2004 Actual closing: 5 January 2005

C. Executing Agency Yunnan YuanMo Expressway Corporation

D. Project Preparation TA 3039-PRC: Yunnan Road Environmental and Social Analysis (project preparatory technical assistance [PPTA])
TA amount: \$150,000
Date of approval: 7 July 1998

E. Related Activities

Technical Assistance	<p>TA 1972-PRC: Policy and Institutional Support in the Road Sector Approved amount: \$1.2 million (Japan Special Fund [JSF]) Date of approval: 9 November 1993</p> <p>TA 2178-PRC: Provincial Highway Network Planning Approved amount: \$600,000 (JSF) Date of approval: 29 September 1994</p> <p>TA 2573-PRC: Review of Highway Design Standards Approved amount: \$420,000 Date of approval: 24 May 1996</p> <p>TA 3086-PRC: Regional Road Sector Study Approved amount: \$1,185,000 (JSF) Date of approval: 13 October 1998</p>
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Sabah Land Development Project (Loan 186-MAL)

A. Project Design as stated in the report and recommendation of the President

Project Objective	The objectives are to diversify the agriculture sector in Sabah and thus reduce heavy reliance on timber, and also to increase export earnings and improve the economic and social conditions of landless and other depressed population groups through their organized settlement in viable land development schemes.
Project Scope	<p>Components include</p> <ul style="list-style-type: none"> (i) land clearing and planting oil palms on some 31,000 acres (12,555 hectares) of land; (ii) construction of some 1,100 miles (1,770 kilometers) of roads; (iii) settlement of some 4,300 families including the provision of housing and social infrastructure facilities; (iv) expansion of one existing oil mill from 27 to 54 tons capacity and construction of a new mill with capacity of 9 tons; (v) construction of oil storage facilities; and (vi) studies of future land development in certain areas of Sabah and preparation of related projects for future implementation.
Expected Project Benefits	<p>Expected benefits include the following:</p> <ul style="list-style-type: none"> (i) the Government's plans supported to achieve high rates of growth in smaller agriculture through land development and to increase incomes of the rural population; (ii) production of about 85,000 tons of palm oil in 1980, resulting in foreign exchange earnings of \$19.0 million, and production by 1985 expected to rise to 123,000 tons for export earnings of \$29.5 million; and (iii) about 4,300 families, or over 20,000 people, settled in well-organized communities equipped with social infrastructure facilities and amenities.
Project Cost	<p>Estimated at appraisal: \$69.5 million Actual cost: \$37.4 million</p>
Financing	<p>Estimated at appraisal: Asian Development Bank (ADB) loan: \$14.0 million Government: \$55.5 million</p> <p>Actual: ADB loan: \$11.1 million Government: \$26.3</p>

B. Key Dates

Loan Approval	1 August 1974
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Loan Effectiveness	29 April 1975
Project Completion	Estimated at appraisal: 30 June 1979 Extended to: 30 June 1981
Loan Closing	Estimated at appraisal: 30 June 1979 Extended to: 1 July 1981

C. Executing Agency Sabah Land Development Board

D. ADB Missions

Number of Loan Review Missions	6
Inception Mission	October 1973
Last Review Mission	November 1980
Project Completion Report (PCR) Circulation Date	11 December 1981
PCR Rating	No rating
Project Performance Audit Report (PPAR) Circulation Date	6 January 1983
PPAR Rating	Generally successful

Terengganu Tengah Township Development Project (Loan 344-MAL)

A. Project Design as stated in the report and recommendation of the President

Project Objective	The objective is to provide facilities in five towns being established as part of the Terengganu Tengah Development Scheme and to strengthen the Development Authority. The scheme aims to open up large areas of jungle land for agricultural development through economically viable farms; increase the value added in the rural areas through extension of processing activities; and provide physical facilities and social services to the work force at level higher than that normally available to the rural dweller.
Project Scope	<p>The components are</p> <ul style="list-style-type: none"> (i) town development works, comprising site formation, town roads, drainage, water reticulation, sewerage, and low-cost waste disposal in the five towns; (ii) regional water supply, comprising four water supply systems (including intake and treatment works, trunk water mains, and high ground service reservoirs) to serve five towns; (iii) low-income group housing and commercial buildings, comprising construction of 2,522 low-cost houses for low-income group families and 98 shop houses and 95 stalls in the five towns; and (iv) provision of services of five professional staff to Lembaga Kemajuan Trengganu Tengah for period of 1–2 years to reinforce its planning, coordinating, implementing, and monitoring capabilities.
Expected Project Benefits	<p>The expected benefits include the following:</p> <ul style="list-style-type: none"> (i) inducing migration into the vast, resource-rich Terengganu Tengah area both from within the state and from other states in Peninsular Malaysia; (ii) providing opportunities for improvement of incomes and living conditions of disadvantaged population groups; and (iii) facilitating the development of the rural economy in the state by establishing new growth centers and developing resource-based industries.
Project Cost	<p>Estimated at appraisal: \$40.6 million Actual cost: \$50.6 million</p>
Financing	<p>Estimated at appraisal: Asian Development Bank (ADB) loan: \$16.0 million Government: \$ 24.6 million</p> <p>Actual: ADB loan: \$16.0 million Government: \$ 34.6 million</p>

B. Key Dates

Loan Approval	29 June 1978
Loan Effectiveness	16 February 1979
Project Completion	Estimated at appraisal: 31 December 1981 Actual completion: 26 August 1984
Loan Closing	Estimated at appraisal: 30 June 1982 Actual closing: 6 June 1983

C. Executing Agencies	(i) Lembaga Kemajuan Trengganu Tengah and (ii) Public Works Department of the Ministry of Public Works and Utilities.
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D. Related Activities

Loan	Loan 0238-MAL: Jerangau-Jabor Development Road Project Approved amount: \$23.7 million Date of approval: 13 November 1975
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E. ADB Missions

Number of Loan Review Missions	7
Inception Mission	19–22 August 1978
Last Review Mission:	January 1984
Project Completion Report (PCR) Circulation Date	28 December 1984
PCR Rating	No Rating
Project Performance Audit Report (PPAR) Circulation Date	4 September 1986
PPAR Rating	Partly Successful

Second Terengganu Tengah Development Project (Loan 583-MAL)

A. Project Design as stated in the report and recommendation of the President

Project Objective	The objectives are to continue the participation of the Asian Development Bank (ADB) in one of Malaysia's regional development schemes, the Terengganu Tengah Development Scheme, consisting of the provision of additional development and settlement-related infrastructure, and training and professional services for the development authority.
Project Scope	The components include <ul style="list-style-type: none"> (i) town development works, (ii) a feeder road network, (iii) a regional water supply, (iv) low-cost housing and shop houses, and (v) training and institutional support.
Expected Project Benefits	The expected benefits include the following: <ul style="list-style-type: none"> (i) growth of the rural economy in the state of Terengganu by helping establish new growth centers and develop resource-based industries in the region and (ii) opportunities for improving the income and quality of life of a large number of disadvantaged, unemployed, and landless people.
Project Cost	Estimated at appraisal: \$77.1 million Actual cost: \$39.5 million
Financing	Estimated at appraisal: Asian Development Bank (ADB) loan: \$30.2 million Government: \$46.9 million Actual: ADB loan: \$16.8 million Government: \$22.7 million

B. Key Dates

Loan Approval	28 September 1982
Loan Effectiveness	24 May 1983
Project Completion	Estimated at appraisal: 31 December 1986 Extended to: 31 July 1990
Loan Closing	Estimated at appraisal: 31 December 1986 Extended to: 12 July 1989

C. Executing Agencies (i) Terengganu Tengah Development Authority and

- (ii) Public Works Department of the Ministry of Public Works and Utilities.

D. Related Activities

Loan	Loan 344-MAL: Terengganu Tengah Township Development Project Approved amount: \$16.0 million Date of approval: 29 June 1979
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E. ADB Missions

Number of Loan Review Missions	8
Inception Mission	20–25 June 1983
Last Review Mission	14–22 September 1988
Project Completion Report (PCR) Circulation Date	29 December 1992
PCR Rating	No Rating
Project Performance Audit Report (PPAR) Circulation Date	26 January 1996
PPAR Rating	Partly successful

ISSUES DESERVING FURTHER STUDY

1. In addition to providing insights and lessons, the special evaluation study (SES) has identified a number of important issues that deserve further study to gain an in-depth understanding.

A. Migration and Poverty Reduction

2. The SES found that the great majority of the rural poor in the areas visited selected rural–urban migration as their primary strategy to rise from poverty. This finding suggests that, in the context of the declining importance of agriculture as a major source of household income, due to the worsening shortage of farmland per capita and the rapid economic growth that has generated job growth in cities, continued public investment in agriculture and in poor regions, while bringing small and temporary benefits to the poor at high costs to governments, may not provide a long-term solution to persistent rural poverty. To the contrary, public support to improve labor mobility and lower migration costs, along with measures that promote economic growth and job creation in non-poor regions, may help sustainably reduce poverty.

3. However, rural–urban migration has been criticized by many analysts, who argue that it transfers rural poverty to urban centers without solving the problem, because migrants may be unemployed or receive low wages and live in poor conditions in the cities. To avoid these problems, some governments have implemented measures to help migrants, including training programs for potential migrants, or agreements with potential employers to hire migrants. In the cases studied under the SES, however, the results of these interventions were mixed. At high cost to the governments concerned, they were neither necessary nor sufficient for successful employment of migrants in cities. Foreign-invested factories require potential employees to have graduated from high school, and training for new workers is usually provided by employers, who know best their training needs. For informal employment as casual labor in construction or services, learning by doing is the most common practice. Social connections and personal characteristics are more important than training. In the cases studied, government-organized migration did not fit well the preferences of individual migrants, some of whom left their assigned employers or destinations.

4. Many questions regarding migration remain unanswered. For example, how can social connections in cities be established for the poor living in remote, isolated villages? How can labor mobility be improved and migration costs reduced? The conventional wisdom is that public investment in roads, highways, and better transportation is key, and that lifting government restrictions on migration will help. The SES found, however, that most migrants used cheap railways instead of expressways, and poor roads in their regions did not stop migration. Lifting government restrictions on migration is necessary but not sufficient, as few households in remote mountain villages visited had social connections in cities, and most ethnic minority people were not fluent the language used in cities.

5. The SES found that many rural households carefully calculated the costs and risks before selecting migration as their avenue out of poverty. In particular, the presence or absence of social connections in cities, such as relatives, friends, fellow-villagers, or other acquaintances, is a crucial factor influencing their decision, because connections could provide job information and reduce uncertainty. In many cases, social connections also provided initial accommodation in cities for newcomers, thereby substantially reducing migration costs. More in-depth studies are needed to obtain a thorough understanding of (i) how migrants found job information, (ii) where they stayed after arriving at cities, (iii) what costs were involved in migrating and job

hunting, (iv) how migrants found or lost jobs, (v) how they live when unemployed, (vi) what were the harshest difficulties they encountered, and (vii) how they handled vulnerabilities. A thorough understanding of these issues may contribute to better design for future interventions aiming to reduce poverty.

B. The Role of Local Elites in Poverty Reduction

6. While targeting approaches used in poverty reduction projects or programs make deliberate efforts to exclude non-poor participants, the SES found examples where non-poor participants—commercial companies, large farmers, village leaders, and other local elites—played a positive role in reducing rural poverty. In some counties visited in Yunnan, People's Republic of China (PRC), local governments were able to attract private companies that invested in agro-processing facilities in their counties to promote the cultivation of high-value crops. These companies signed contracts with small farmers to purchase their products and provided them with seed, training on production technologies, and field assistance from extension workers. In some cases, the contract farming also involved the participation of village elites, who organized farmers, acted as their bosses, provided them with credit for production (and for living expenses when necessary), and charged them management fees. In one village, a member of the local elite even financed constructing a dirt road necessary to transport sugarcane from the fields to the processing factory and started charging farmers an annual fee that, in 17 years, would repay the investment cost. While the charges seemed unreasonably high, interviewed farmers appreciated the investment, which enabled them to shift from growing grain to cash crops with higher returns. In these cases, local elites played a positive role in reducing poverty in their villages. These findings suggest that poverty reduction needs the participation of local elites. Due to their better financial and managerial capacities, many local elites are in a better position than the poor to generate employment. Poverty reduction projects or programs may need to design appropriate incentives to encourage local elites to participate under certain conditions—conditions that need to be better understood through in-depth investigations of real cases under different contexts. Only then can project designers offer appropriate incentives and effective interventions.

C. The Role of Commercial Agriculture in Poverty Reduction

7. Urbanization and demand from international markets have created new opportunities to increase farm income by growing high-value crops, such as organic vegetables and fruits or high-quality animal products. These commodities require producers to meet health standards, as well as requirements regarding labeling, certification of origin, and standardized delivery demanded in contracts with supermarkets. Many success stories tell of smallholders producing untraditional exports in Latin America and Africa, and the SES observed a few cases in Yunnan that included growing tea and flowers. Available studies on the so-called “new agriculture” suggest that, while capturing these opportunities may not be easy for small-scale farmers for many reasons, including institutional frameworks required to achieve competitiveness and demanded scales of delivery, and that high-value agriculture may not solve all the problems underlying rural poverty, farmers who grow high-value crops improved their income substantially compared with those who continued to grow traditional crops. In addition, high-value crops often demand much more labor than traditional crops and therefore raise demand for wage labor in rural areas. Since the new agriculture may provide one alternative for generation employment under certain conditions, it may be necessary to understand better the conditions under which high-value products can be developed; what difficulties small farmers may face when they grow new crops; and what role commercial firms, projects, or policies can play in promoting new agriculture.

D. The Role of the State and the Private Sector

8. All three countries covered by the SES—including in particular Viet Nam and the PRC—were characterized by the strong role of the state and the relatively recent development of the private sector in commercial agriculture. In the areas visited, the OEM observed very few cases of agro-processing firms promoting contract farming with small farmers or investing in high-value crops grown on their own land. Other countries in Asia are likely to have differences in government, the private sector, and the relationship between them. It may be relevant to test the findings in the SES in countries with different contexts.

E. The Role of Different Contexts

9. The SES found that the strategies adopted by rural households to rise out of poverty were strongly influenced by the resources they had as well as the contexts they inhabited, which determined the options available for escaping poverty. The following characteristics of the context seemed to have a strong impact on what poverty exit strategies they selected:

- (i) **The degree and pace of industrialization.** The three countries covered by the SES were characterized by rapid industrialization during the last 2–3 decades. As industry grew so quickly, demand for labor could not be met by urban workers alone, creating opportunities for many people to migrate from rural areas to cities and work in industry.
- (ii) **Population density and farmland per capita.** Most of the rural areas visited had high population densities. As populations continued to grow, shortages of farmland per capita intensified in these areas, making it difficult for rural families to live by agriculture alone. This was a major factor underlying the widespread adoption of migration as a primary strategy to rise from poverty.
- (iii) **Agro-ecological endowments such as climate and natural resources.** Many areas visited were poorly endowed with natural resources, providing few opportunities for developing commercial agriculture, even after public projects improved rural roads.

10. Since the cases studied by the SES were not representative of the whole range of different contexts found in Asia, its findings and lessons need to be tested in countries and regions with various features.