

## EXECUTIVE SUMMARY

This special evaluation study (SES) arises from the increasing importance the Asian Development Bank (ADB) places on poverty reduction, which has become the overarching goal of its operations. To achieve this goal, ADB uses geographic and household targeting to channel funds to poor regions or deliver benefits to poor households. Many ADB projects add such components to make projects pro-poor. The widespread use of poverty targeting has generated (i) an increased need for evaluating the effectiveness of poverty reduction interventions and (ii) a need to understand what worked, what did not, and why. This SES aims to provide insights into key factors determining the effectiveness of poverty reduction interventions, with a view to generating lessons for the future design and implementation of ADB projects.

The SES applied a poverty exit framework as its conceptual model to systematically analyze factors affecting the pathways out of rural poverty and the sustainability of the poverty exit. These factors included (i) various assets that rural households had, (ii) the context and conditions they faced, and (iii) the strategies they used to rise out of poverty. The SES focused on the following questions: (i) How did poor households in rural areas rise out of poverty? (ii) What were the factors critical to their rise out of poverty? (iii) How effective were poverty reduction interventions? (iv) What were the key factors determining the effectiveness of the interventions? (v) What measures could be taken to improve the effectiveness of poverty reduction interventions in the future?

Using mixed methods to collect data, the SES selected seven ADB-financed projects for in-depth study. These included (i) one rural credit project and one rural infrastructure project in Viet Nam, (ii) two expressway projects in the People's Republic of China (PRC), and (iii) one land settlement and two township development projects in Malaysia. These three countries have experienced rapid economic growth in the past 2–3 decades, achieving remarkable records in poverty reduction.

The Operations Evaluation Mission (OEM), comprising a senior evaluation specialist from ADB and an international consultant, visited the three countries and conducted extensive fieldwork in 75 villages. To obtain a deep understanding of how rural households rise out of poverty and what contributes to their poverty exit, the OEM conducted many in-depth interviews with a wide range of informants, including project designers in ADB, implementers in government agencies and financial institutions, field staff working directly with beneficiaries, local governments, village leaders, and ordinary residents in project areas—both the poor and others, people 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.

Using both official poverty lines and definitions of poverty used by households themselves, the OEM observed substantial reduction in rural poverty in all areas visited. The sustainability of the poverty exit, however, varied significantly across regions. In the areas visited, agriculture played a key role in poverty exit in early stages, when farmland was relatively abundant. Agriculture's role declined dramatically, however, when continued rural population growth intensified the shortage of farmland per capita in these areas. Meanwhile, off-farm employment was limited in many remote regions that remained unattractive to private investors even after projects upgraded rural roads. The OEM found that a great majority of the rural poor, especially those from remote and poorly endowed regions, rose out of poverty by migrating to non-poor regions and working in non-agricultural sectors.

In the cases studied, most of the poor had few assets other than their labor. Consequently, their strategies to rise out of poverty were to find whatever ways available to employ family labor. The OEM identified the following, among other factors, as being the main constraints on rural employment. For employment in agriculture, (i) shortage of farmland, (ii) scarcity of water in the dry season, and (iii) other adverse farming conditions such as a harsh climate were among the most binding constraints. For self-employment in off-farm activities, the lack of access to commercial credit was a key constraint, especially when capable individuals identified good investment opportunities but lacked the required funds. For wage employment, job availability and barriers to migration mattered most, including (i) government control on labor mobility, (ii) language difficulties among ethnic minorities, and (iii) households' lack of social connections in cities. Road conditions and transportation costs, while relevant in households' migration decisions, were by no means a binding constraint, as most migrants traveled long distances to work in cities; poor roads in their hometowns did not stop their migration. The OEM found that migrants' lack of education and skills were not a binding constraint for employment in the informal sectors such as construction and services. For formal employment such as in foreign-invested factories, however, secondary education was a precondition. Many private firms—who knew best their training needs—provided training to new workers who migrated from rural areas.

In the areas visited, household vulnerability was a primary cause of new poverty. Major factors underlying vulnerability included (i) serious or chronic illness of family members and (ii) investment failures due to price fluctuations, epidemic outbreaks of animal disease, or natural disasters. At times of emergency, searching for immediately available funds was a typical coping strategy of many rural households. For the first- or one-time shock, many households could recover by themselves through reinvestment, working harder, and reducing consumption if they had timely access to commercial loans with a maturity that was long enough for them to recover. Unfortunately, most formal financial institutions did not provide emergency loans quickly enough, and a great majority of rural households relied on moneylenders. The high interest charged by moneylenders trapped some borrowers in poverty after distress sales of farmland forced by accumulated debt.

In the cases studied, the OEM found that the following government and ADB interventions worked well: (i) public investments to promote economic growth and job creation, such as the two expressway projects in the PRC; (ii) policies or programs to reduce barriers to labor mobility or to facilitate migration; (iii) projects to make unsubsidized loans more readily available for most rural residents, such as the rural credit project in Viet Nam; and (iv) policies or programs to reduce household vulnerability, such as free education and health services in Malaysia.

In contrast, the following interventions were found to be largely ineffective in the cases studied: (i) upgrading isolated rural roads in remote and poorly endowed regions, (ii) add-on components satisfying ADB's pro-poor objective without sufficient demand from clients, and (iii) household and geographic targeting used in investment projects that did not tackle the key causes of poverty but simply assumed that funds flowing into poor regions, or benefits received by the poor, would automatically lead to poverty reduction.

The OEM found this assumption largely invalid in the cases studied. Locating projects in poor regions did not guarantee significant poverty reduction if the project interventions were largely irrelevant to the key causes of poverty in the particular project areas. In the remote and poorly endowed regions visited, the key causes of poverty included, among others, (i) a severe

shortage of farmland per capita, (ii) a large and rising labor surplus, and (iii) a lack of sufficient local off-farm employment to absorb the surplus labor. These factors underlay widespread rural unemployment or underemployment. Since these key constraints were not mitigated by the project interventions, poverty remained largely unchanged after the projects improved rural roads or small-scale irrigation facilities, which brought only small, poorly sustained benefits to rural residents due mainly to insufficient funds to maintain the facilities after project completion. In these cases, the long-term solution to persistent rural poverty seemed to lie largely outside the poor regions, and a great majority of the rural poor selected migration as their primary strategy to rise out of poverty.

These findings should not lead to a simple rejection of all targeting approaches, which can be effective for certain interventions such as welfare programs. Instead of applying targeting in all poverty reduction projects, there is a need to differentiate poor households and poor regions. For the poor without working capacity, welfare programs should be designed to take care of this group on a long-term basis, and targeting is an effective mechanism to channel public subsidies to the poor and minimize the leakage of the benefits to others. To effectively reduce poverty among the productive poor, however, project interventions need to be tailor-made to mitigate the key constraints on poverty reduction in the particular project areas. Merely focusing projects on poor households or poor regions may end up isolating the poor from the more dynamic actors in society, who are usually not poor, and from the mainstream of economic growth. While bringing small and temporary benefits to the poor, such projects failed to lift them out of poverty in the cases studied. To be effective, projects aiming to reduce poverty among the productive poor should target the key causes of poverty instead of poor households or poor regions. Solutions that effectively reduce poverty in the poor regions may require public investment in non-poor regions to promote economic growth, as well as participation of non-poor individuals in job creation.

In regions with high potential to generate significant employment, such as areas with sufficient land and well-endowed for commercial agriculture, infrastructure projects may elicit large inflows of private capital and substantial job creation. Such investments may not be effective, however, in remote and poorly endowed regions, which, in the cases studied, remained unattractive to private investors even after projects upgraded rural roads. Without private investment to generate long-term jobs, the projects may temporarily improve living conditions for the poor without actually lifting them out of poverty. In contrast, interventions to facilitate the orderly migration of surplus rural labor from the poor regions to areas with dynamic growth, including measures to reduce migration costs, may be a more effective alternative.

Without a deep understanding of these issues, many ADB projects have focused on locating project activities in poor regions instead of identifying the key constraints in the particular project areas and designing tailor-made interventions accordingly. Projects were too often justified by the number of beneficiaries who were poor or female. Many projects added pro-poor components without sufficient demand from clients. Few projects were evaluated by the number of households that sustainably rose out of poverty.

Instead of targeting less relevant investments in poor regions, the SES calls for finding alternative areas where ADB interventions may lead to effective, sustainable reductions in rural poverty. These may include

- (i) infrastructure investment in areas naturally attractive to private investors and with high potential for significant employment generation, even if they are not poor;
- (ii) investments to enhance the capacity of the poor to capture opportunities, such as programs to facilitate orderly migration or reduce migration costs, or projects to

- improve rural residents' access to unsubsidized loans that could effectively mitigate the constraints of insufficient capital for private investment and job creation;
- (iii) programs to reduce household vulnerability, such as by providing health services at affordable cost, or projects to facilitate households' recovery from shocks, such as the timely provision of emergency loans at commercial rates with maximum flexibility and long maturity; and
  - (iv) projects to break the vicious cycle of inherited poverty, such as subsidized loans for parents to invest in their children's education, including post-compulsory education, which may create access to better-paid jobs for the next generation.

In addition, the following issues are discussed in the main text or appendixes, which report on the case studies of the three countries: (i) alternative approaches to financing rural infrastructure; (ii) the role of expressways and local roads in poverty reduction; (iii) add-on components in expressway projects; (iv) the effectiveness of new government programs in the PRC aiming to reduce rural poverty and household vulnerability; and (v) the eradication of remaining hardcore poverty in Malaysia.

The SES is not an impact evaluation of ADB projects, and the cases studied did not represent all ADB operations. The SES conclusions, while consistent with the findings of many studies, have not been confirmed by large surveys in a range of different country contexts, notably not in countries that have yet to experience rapid economic growth. Thus, the SES conclusions cannot be simply generalized to other countries without first analyzing their contexts.

The SES recommends that an informal working group comprising staff of ADB regional departments' agriculture divisions be tasked with, among other things, reviewing the findings of this study as a step towards redefining the role of agriculture in poverty reduction. The output of this exercise, which may include a strategy statement and an action plan, should feed into the proposed review of ADB's Long-Term Strategic Framework.

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