

MANAGEMENT RESPONSE TO THE SPECIAL EVALUATION STUDY ON PATHWAYS OUT OF RURAL POVERTY AND THE EFFECTIVENESS OF POVERTY TARGETING

On 7 June 2006, the Director General, Operations Evaluation Department, received the following response from the Managing Director General on behalf of Management:

A. Overall Comments

1. Management notes that the OED special evaluation study (SES) raises some important issues and offers insightful observations about ADB operations. The SES challenges certain types of direct poverty interventions practiced by ADB and questions their effectiveness as means to reduce rural poverty. Despite some methodological limitations of the study as acknowledged [a relatively small sample not representative of all ADB operations and developing member countries (DMCs) and the fact that the study is not a rigorous impact evaluation], the issues raised are important and the views expressed are sharp. The SES also makes a number of specific recommendations as to how to increase the effectiveness of poverty reducing interventions and proposes several interesting issues for discussion. While taking them seriously, we note that some of the lessons identified in the SES are already being incorporated in the design of ADB's agriculture and rural development projects.

B. Comments on Recommendations

a. Alternative Fields for ADB Interventions (para. 140)

2. We support the SES recommendation that ADB explores alternative approaches to assisting DMCs in fighting rural poverty.

3. We agree with the study's observation that the difficulties experienced in past agriculture and rural development (ARD) projects do not merit ADB's withdrawal from the sector. We also agree that it is important to learn the lessons from our past failures and explore alternatives to improve ADB's effectiveness in reducing rural poverty. However, it should be noted that the study is based on a narrow set of projects (7 in total—2 expressway projects, 2 township development projects, 2 rural infrastructure projects, and a rural credit project) and countries (3—Malaysia, PRC, and Vietnam) that may not be representative of the rest of the region or of the ARD sector more generally.

4. We note the recommendation that infrastructure projects should be located in regions that are naturally attractive to private investors, instead of focusing on poor regions. In the case of PRC, however, this recommendation could conflict with the Government's Western Development Strategy, which seeks to encourage economic growth in the poorer regions of the country.

5. With respect to the inclusion of local road components in the scope of projects that are intended primarily to support the development of trunk highways/expressways, project design has evolved since 1999 in the case of PRC. Up to that time, local road components were often based on the improvement of roads within a specific geographical area, often a poverty county. Since 2000, there has been a steady move away from these area-based components and toward local/connector road components that contribute much more to the development of the road network by improving specific road links between cities, towns and county seats, and the trunk highway network.

6. The study suggests that orderly migration of surplus rural labor to regions with dynamic growth is an effective strategy for poverty reduction in rural areas where population densities are high, average farm sizes are small, and the pool of surplus labor is large [observation (ii), para. 140]. While this observation is controversial in its own right—and to be fair, the SES does cite a rather extensive literature that does not advocate out migration in such instances—it may not be relevant in many places (e.g., South Asia) where urban areas are also extremely overcrowded and the pool of surplus urban labor is already large. In such instances, there may be no other option than to try and find ways to make our traditional modes of intervention—investments in rural infrastructure, farm production, and community development—work better than in the past. In this context, interventions to enhance commercialization and value addition in agriculture, particularly support for the development of labor-intensive agribusiness, may be more promising than the strategies recommended in the SES. Urbanization also does not mean to keep expanding the existing cities. Proper urban planning should determine optimum size of each mega city and town based on available resources (i.e., land, water, and sanitation). Such a planning should determine sites for future urban areas that would also help guide ADB's future investments.

7. We also have reservations on the view that the banking system could be a mechanism for reducing household vulnerability [observation (iii), para. 140]. While we agree that banks and microfinance institutions need to become more efficient and reduce the time it takes to process loans (para. 60), it is unlikely that commercially-oriented financial institutions would view distressed poor households as viable credit risks. It would seem therefore that such an initiative would not be consistent with promotion of a sound and commercially-oriented financial system. It might, therefore, be better if the vulnerability of poor households were addressed through targeted welfare programs or specialized relief agencies.

8. While we agree that there is a need to design projects that break the “vicious cycle of inherited poverty,” low cost (presumably subsidized) loans to parents to invest in their children's education may not be the best way to do it [observation (iv), para. 140]. In particular, perpetuation of widespread subsidized lending could undermine the commercial viability of the financial system and retard the development of a viable credit culture, which is not well established in most of our DMCs. In light of this, it may be better to provide the subsidy directly in the form of free education for the poor, including for post-compulsory studies, rather than saddle such a huge obligation on the banking system. Such subsidies could also extend beyond school fees to include uniforms and supplies if

necessary—the SES cites an example in Vietnam where school fees were free but parents apparently went broke anyway buying uniforms, paying for boarding, etc. (paras. 58-59)—or perhaps ADB should advocate in its policy dialogue free provision of uniforms, supplies and boarding as well, at least for the poor.

b. Issues Relating to Required Changes in ADB's Operations (para. 141)

9. The SES proposes a number of relevant issues relating to required changes in ADB's operations aiming to reduce rural poverty. ADB will study these issues more in-depth for enhancing the effectiveness of its future rural poverty reduction interventions.

10. The discussion point (iii) in para. 141 needs to be amended. ADB no longer measures the success of its Poverty Reduction Strategy (PRS) by looking only at the number of poor households reached by projects. Under the recommendations of the 2004 PRS Review, the "enhanced" PRS focuses both on direct interventions as well as indirect means such as through growth, of reducing poverty. Given the previous somewhat unsatisfactory experience with narrow targeting of households only under the poverty intervention approach, the enhanced PRS modifies the concept of targeting to also include other targeting attributes such as geographical targeting and supporting the non-income Millennium Development Goals, which all fall under the classification of "Targeted Interventions." Moreover, there is no institutional lending target for targeted interventions and projects which reduce poverty indirectly through general growth and employment generation (which are called "General Interventions") are considered as important, recognizing their importance in poverty reduction.

11. The point raised in para. 141 (vi) regarding whether ADB should continue to add pro-poor components to investment projects to address social issues is one that deserves very careful consideration. Appendix 3, para. 65 is highly critical of what it terms "unreasonable requests from ADB that expressway projects include activities on AIDS control, women empowerment, or ethnic minority development". The inclusion of activities related to women empowerment and ethnic minority development reflect the requirements of the Operations Manual (C2 and F3), which mandates the preparation and implementation of gender plans and ethnic minority development plans when projects are expected to impact on the relevant groups on society. With respect to the HIV/AIDS components, the Board Information Paper (IN90-05) on "*Development, Poverty and HIV/AIDS: ADB's Strategic Response to a Growing Epidemic*" (April 2005) refers to ADB's responsibility to address and mitigate the risks associated with projects in high-risk environments and calls for the integration of HIV/AIDS components in projects for infrastructure. However, it is acknowledged that the executing agencies for such expressway projects often are reluctant to handle such components because of their limited expertise in these areas and because they do not wish to borrow for such components. Unless ADB wishes to reverse its position on the mainstreaming of social issues of this sort, a solution to this problem will have to be found through changes in Borrowers' internal institutional and budgeting systems.

C. Conclusions and Follow-up Actions

12. Management supports the SES recommendation that ADB explore alternative approaches to assisting DMCs in fighting rural poverty. We think that the ideas of identifying the root causes of rural poverty and the binding constraints to poverty reduction and designing rural projects accordingly, paying greater attention to the role of the migration of surplus labor from agriculture to nonagricultural sectors in reducing rural poverty, and focusing on projects that enhance the capacity of the poor to capture nonfarm employment opportunities make good economic sense.

13. We support the follow-up actions recommended (para. 142, Table 4) for the formation of an informal working group to review the findings and issues of the SES in a more systematic manner through more in-depth studies and wider discussions as a step towards redefining the role of agriculture in poverty reduction, and possibly craft a strategy statement and action plan.

14. We note the recommendation for some of the road network planning issues identified in the SES to be assessed more deeply in the Sector Assistance Program Evaluation in the Transport Sector in PRC. We suggest that the East Asia Department be also involved in this action.