Targeting of the Poor and Ultra-Poor

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1. The Poor and Ultra-Poor

In common usage, poverty is a state in which an individual lacks a socially acceptable amount of money or material possessions (Merriam-Webster, 1995). Accordingly, what defines poverty differs across time and contexts, and what is "socially acceptable" in one country may differ from that in another country. Poverty can be defined at a micro (e.g., individual) or a macro (e.g., region) level. At the individual level, it can be defined relative to a societal reference level of income or consumption (or multidimensional indicators). For an income-based measure, the minimum acceptable individual income level may differ across countries, depending on their level of prosperity. At the macro level, a region can be identified as poor based on the gap between the region and other locations.[1]

The ultra-poor are a subset of the poor (Lipton, 1986).[2] They eat below 80 percent of their energy requirements despite spending at least 80 percent of income on food. They are vulnerable to seasonal fluctuations in food supply, wage employment, and seasonal nutrition and health risks. According to the Sustainable Development Goal 1 (SDG1) of the United Nations, a person with a daily income of less than $1.25 is extremely poor.[3]

What kind of life does the ultra-poor live? Table 1 summarizes the economic lives of the

[1] The thinking on poverty has evolved significantly over the past 50 years. For example, one can distinguish between absolute and relative poverty. Poverty can be multidimensional. It could also be subjective. It could be defined in terms of a benchmark, or the intensity of poverty can be defined. Kanbur and Squire (1999) provide an excellent summary of the evolution of thinking on poverty. Available at: https://unstats.un.org/unsd/methods/poverty/evolution_of_thinking_about_poverty%20Kanbur%20Sept%201999.pdf

[2] In this paper, the terms ultra-poor and extremely poor are used interchangeably.

[3] According to the new international poverty line of the World Bank, a person is extremely poor if their daily income is less than $1.90. For a discussion on related measurement issues, see: https://blogs.worldbank.org/developmenttalk/international-poverty-line-has-just-been-raised-190-day-global-poverty-basically-unchanged-how-even

poor[4], which are even more applicable to the ultra-poor. Accordingly, the ultra-poor have large families. They do not eat enough and frequently fall sick. They save little and their investment in education is negligible. However, they are typically entrepreneurial. They do not save for lack of access to good financial institutions. They do not spend all their money on food because they like the rich spend money on alcohol, festivals, and weddings.

Table 1. The economic lives of the poor[5]

Living arrangements: Large family. Many children, fewer older people. Extended family.
Food and other consumption purchases: Food accounts only for 56 to 78 percent of the expenditure. Spending on festivals, weddings, and funerals are an important part of the budget. Do not spend on entertainments that the rich spend on like theater, movies, spa treatments, and video shows.
Ownership of assets: Apart from land, they tend to own very few productive assets.
Health and well-being: They are frequently sick or weak.
Investment in education: Invest little in education. Children go to substandard schools. Unable to distinguish high quality from substandard education.
Livelihoods: Not specialized in their chosen field because of risk spreading. Seek out new opportunities. Run extremely small businesses and have unrealized economies of scale. They could earn more if they migrated to a city and stayed longer in the city. The lack of long-term migration reflects the value of remaining close to one's social network, in a setting where the social network might be the only source of informal insurance available to them.
Markets and saving: Outstanding debts. Do not save because they have no bank accounts or other rewarding financial assets through which to save. Saving at home is challenging because of safety concerns or because they are vulnerable to the temptation of spending. Little access to formal insurance.
Infrastructure: Availability of physical infrastructure like electricity, tap water, and basic sanitation is poor and varies across rural-urban areas and across countries.

They lack productive assets to build upon. Seasonal and temporary migration to cities is very

[4] Banerjee and Duflo (2007, 2011) describe the economic lives of the poor using household surveys conducted in 13 countries: Cote d'Ivoire, Guatemala, India, Indonesia, Mexico, Nicaragua, Pakistan, Panama, Papua New Guinea, Peru, South Africa, Tanzania, and Timor Leste.

[5] This table has been adapted from Rahman, Tauhidur (*Forthcoming*). "Poverty, Agency, and Development." *Social Philosophy & Policy*, Volume 40.1.

typical among the ultra-poor households. However, the migration to cities is temporary because their rural communities provide informal insurance that the cities do not.

IFAD's operational definition of the ultra-poor is the same as the extremely poor defined by SDG1. While IFAD covers the ultra-poor in the rural areas, its target group is much broader, which also includes vulnerable non-poor, women, socially disadvantaged and marginalized groups (e.g., indigenous communities, people with disabilities), and often non-poor if their inclusion is necessary for the successful implementation of its projects (IFAD, 2008, 2019).

Given IFAD's focus on the rural poor, a significant percent of the target group are landless households and smallholding farmers.

2. Targeting the Poor

One of the challenges to anti-poverty programs is the effective targeting of the poor, especially the ultra-poor. It is even more challenging in developing countries, given the lack of reliable and timely income data, concentration of the poor in informal sectors, and their reliance on subsistence agriculture. To identify the poor, the anti-poverty programs have traditionally relied on household survey data, where a household's poverty status is determined by its consumption expenditures (Deaton, 1997). However, one of the limitations of this approach is that detailed consumption surveys are expensive, and they also suffer from various measurement errors.

Therefore, the alternative methods of targeting use more easily observable proxies of welfare such as ownership of durable assets, household size, and composition (Coady et al., 2004), which are used to construct indices of welfare (Filmer and Pritchett, 2001). These methods include means testing, proxy means testing (PMT), geographic targeting, demographic targeting, self-targeting, and community-based methods (CBT). They can be used alone or in conjunction with

one another, depending on a project's objectives and context, among other considerations, as briefly described below.

In means testing, households' eligibility for a program is assessed based on their resources (e.g., income) with some threshold or cutoff. Information on their resources is either provided by them or collected with interview. Therefore, this approach also suffers from the problem of measurement errors associated with the traditional consumption-based targeting of the poor. In PMT, a score for each household is calculated based on several observable proxies (e.g., income, durable assets, household size and composition). These proxies are used to predict per capita consumption, mapping the relationship between the proxies and consumption (Grosh and Baker, 1995). Then a household's eligibility for a program is determined by comparing its score against a predetermined cutoff.

In geographic targeting, a household's eligibility for a program is largely determined by its location of residence and existing information (e.g., surveys of basic needs, poverty maps). One of the advantages of this approach is that it is administratively simple and carries low stigma. However, it is inefficient in targeting of the poor if poverty is not geographically concentrated. In demographic targeting, a household's eligibility for a program is determined by its demographic characteristics (e.g., age, gender). However, its efficiency largely depends on the accuracy of demographic information. In self-targeting approach, a program is open to all households, but it is designed to ensure that its take-up is higher among the poor than the non-poor.

Unlike the preceding approaches, CBT methods utilize community members to collect information about the welfare status of other households in the community. The relative poverty status of households in a community is determined using various tasks including a list of households that are considered poor, category of all households into various poverty groups, and

a complete welfare ranking of all households in a community. The complete welfare ranking task is also known as a participatory welfare ranking (Chambers, 1994). Commonly used CBT tasks involve joint decision-making of all participants, guided by a facilitator, and iterations in which exercises are completed separately in smaller groups. Then information is aggregated by program implementers (Dupas et al., 2021; Premand and Schnitzer, 2018; Hussam et al., 2017). Thus, a group of community members essentially decide who in their community is poor and should be eligible for a program.

2.1. IFAD's Targeting of the Poor

IFAD outlined its targeting policy in 2008 (IFAD, 2008) and the guideline was revised in 2019 (IFAD, 2019). According to the original targeting policy, targeting of the poor is a set of demand driven actions and measures that are purposefully designed and mutually agreed upon to ensure (or at least increase the likelihood) that specific groups of people will take advantage of a development program. The approach is an inclusive process, based on partnerships with the concerned governments and local implementing organizations. It is based on analyses of rural poverty and the livelihoods of rural poor, including understanding of the policy and institutional environment that impact the intended target group, mapping of the activities and contributions of other similar development organizations, and an emphasis on rural poor's agricultural and non-agricultural linkages, among other considerations. It is a gender sensitive approach, involving gender-sensitive poverty and livelihood analysis, while incorporating the views of poor women and men and their organizations.

The identification of a target group is guided by the following principles. First, the rural poor who are living in poverty and experiencing food insecurity should be focused. Second, those who have fewer assets and opportunities, especially extremely poor should be included.

Third, economically and socially marginalized groups should be included. Fourth, special consideration should be given for gender inclusiveness of the identified target group. Fifth, target group ought to include vulnerable groups who may not be economically poor, but who are at the risk of sliding back into poverty. Finally, non-poor may be included because of economic and market interdependencies and if including them avoids conflicts and engages them as leaders and innovators.

Among the alternative methods of targeting, geographic targeting, self-targeting, direct directing, and CBT are most frequently used in IFAD projects.[6]

In response to the 2030 Agenda for Sustainable Development, IFAD updated its targeting guidelines (IFAD, 2019). The revised guidelines recognize IFAD's comparative advantage in targeting of the poor and the vulnerable people who are likely to have little access to assets and opportunities. Accordingly, IFAD must target the poorest, the poor and the vulnerable rural people, and those who are at the risk of being left behind. Gender, youth, nutrition, and environmental and climate-related development issues are mainstream issues in the targeting process. The dynamic nature of poverty and the importance of tackling different forms of vulnerability must be considered. Targeting should be aligned with the concerned government poverty reduction priorities, policies, and strategies. IFAD projects need to ensure that working with the non-poor results in direct benefits for the poor. Innovative targeting approaches should be tested by strengthening existing partnerships and establishing new ones. Finally, IFAD projects need to adopt consultative and participatory approaches to targeting and they need to empower and build the capacity of those who have less voice and fewer assets.

[6] For a detailed description of IFAD's targeting methods and the changes in its operational guidelines, see IFAD (2008, 2019).

3. Lessons from Targeting of the Poor

In the last twenty years, a significant amount of empirical literature has emerged on targeting of the poor. This literature includes both qualitative and quantitative studies, case studies, experimental evaluation of alternative targeting approaches, and evaluation of anti-poverty programs by international development institutions, including IFAD. Given the diverse nature of this literature, here the focus is on lessons from IFAD's targeting experience and recent economic studies on targeting. The purpose is to learn from the recent studies for future IFAD projects and their implementation.

3.1. Lessons from IFAD's Targeting

IFAD works in diverse developing countries, with unique challenges to targeting of the rural poor. Therefore, the targeting lessons are contextual, which not only differ across countries, but they also differ widely within a country. For example, IFAD's targeting of the poor in India differs significantly from the state of Bihar to the state of Maharashtra, given significant variations in their socioeconomic conditions and institutional environment. Thus, to draw comprehensive lessons from IFAD's targeting experience, analyses of evidence by projects and by country are required, which is beyond the scope of this paper.

However, 2018 ARRI presents a synthesis of IFAD's performance based on findings from a sample of 320 project evaluations completed between 2002 and 2017, and 45 country and project evaluations. Drawing upon 2018 ARRI and other IFAD reports (e.g., 2008 Targeting Policy) and interviews with several local IFAD staffs in developing countries, some of the stylized lessons on targeting of the poor are as follows:

- IFAD is effective in reaching the poor, but it has been challenging to reach the ultra-poor.

This is partly because the ultra-poor are excluded and marginalized for deeply rooted social and historical reasons that cannot be overcome during a lifecycle of a project.

- The exclusion of the "better-off" or "less poor" is not always desirable.
- For effective targeting, understanding of the local dynamics of poverty, livelihood systems, and their gender dimension is important.
- Geographic targeting is effective in areas with high concentrations of the poor.
- Direct targeting measures such as means-based eligibility criteria and poverty lines work better if they applied with community participation.
- Self-targeting is a good approach for identifying activities and services for the poor.
- CBT approaches are suitable if eligibility criteria are identified and applied by the community.
- Social acceptability of the targeting method used is important.
- Capacity of local project implementation staff is important, but allocated resources for it is inadequate.

3.2. Evidence from the literature

The empirical literature on targeting of the poor covers a range of issues, including effectiveness of alternative approaches to targeting and features of successful targeting programs. Given the vast amount of the literature, this paper attempts to draw lessons from the studies that are relevant for the future targeting and programming of IFAD projects.[7] In the following,

[7] There is one important difference between the literature surveyed here and IFAD projects that must be noted. While both are about multifaceted anti-poverty programs, a typical IFAD project is relatively more complex. In the literature surveyed here, often the interventions center around cash or asset transfers to eligible households, with the added components of information and capacity building. In contrast, IFAD projects, especially the projects that attempt to improve agricultural productivity, involve a variety of production-related activities. IFAD projects are comparable to the Feed the Future (FtF) projects of the USAID. However, for the purpose of the relative effectiveness of alternative targeting methods, the more relevant difference between the literature and IFAD projects

important findings from the literature is presented in a chronological order to highlight the progress and the current state of knowledge on targeting of the poor.

Wodon (1997) compares the relative performance of targeting indicators in identifying the poor in Bangladesh. He uses fifteen indicators, including location, land ownership, education, occupation, demographics, and housing, among other indicators. Then he conducts the analysis at the national, urban, and rural levels with two alternative poverty lines. He finds that in urban areas, education dominates land ownership in identifying the poor. In contrast, land ownership dominates in the rural areas.

One of the most direct way to reducing poverty is transferring resources to the poor. However, governments and development agencies do not know the people who are poor. Therefore, it is not surprising that public development programs intended for the poor often end up reaching the non-poor and have high administrative cost. Therefore, community information is appealing. In one of the theoretical studies on targeting, Rai (2001) shows that community information could be useful in reducing targeting costs, if community members make reports about each other.

Conning (2002) considers both theories on community involvement and case studies on social protection programs. From his analysis, he underscores the following insights. First, costly rent-seeking behavior by local leaders and powerful community members may erode gains from utilizing local information and social capital. Second, the improvement in targeting criteria from considering locally defined notion of deprivation must weigh the possibility of program capture

is about the definitions of target groups. Since IFAD's target group also include women, other disadvantaged groups (e.g., indigenous communities), and some non-poor households, it is not straightforward to compare the relative efficacies of different targeting methods based on IFAD experience with that of what economists have documented based on experimental studies. In economics literature, targeting of the poor (or the ultra-poor) limited to the poor per se. Thus, how FAD goes about identifying eligible households could be very different than the process followed in economic studies. That is, given the fundamental difference in the definitions of target group, how each method plays out for IFAD compared to economic studies could be very different.

by local elites and the possibility that community preferences may not be pro-poor. Third, in response to national funding and evaluation criteria, strategic targeting by local communities may undermine intended outcomes.

In an important study, Alatas et al. (2012) conducted an experiment in 640 Indonesian villages to examine the relative efficacy of PMT, CBT, and a hybrid in targeting the poor. The program provided approximately $3 to poor households, defined by location-specific poverty lines. In a randomly selected one-third of the villages, the program conducted a PMT to identify the eligible households. In another third of the randomly selected villages, it employed CMT, where the community members ranked everyone from richest to poorest, and accordingly the eligibility for the program was determined. In the remaining villages, the program used a combination of the two methods (Hybrid, henceforth), where communities ranked everyone. Then the ranks were used to select the households to participate in survey. Then in the second stage the eligibility of households for the program benefit was determined with PMT. The three treatments (CBT, PMT, Hybrid) were evaluated for targeting the poor (defined by consumption) and the satisfaction with the beneficiary list.

The CBT and hybrid methods performed worse than the PMT in identifying the consumption-based poor. However, CBT and hybrid methods did as well in identifying the ultra-poor. Despite the somewhat worse targeting outcomes based on consumption-based poverty, the CBT had higher satisfaction and legitimacy of the process. CBT had 60 percent fewer complaints than the PMT.

In the second part of the study, the authors attempt to understand why the CBT and Hybrid methods differed from the PMT. More specifically, they examined the roles of elite capture, community effort, local concepts of poverty, and information. To test the role of elite

capture, they randomly divided the CBT and Hybrid villages so that in 50% of these villages everyone in the community was invited to participate in the ranking meeting, whereas in the remaining 50%, only the elites (i.e., local community leaders) were invited. In addition, the authors collected the baseline survey data on relationships of households to the elites. The results showed no evidence of elite capture. Moreover, there was no evidence to suggest that households that were related to the elites were more likely to receive funds in the CBT and Hybrid villages compared with the PMT villages.

To study the role of community effort, the authors randomized the order in which households from a village were considered at the meetings. This was done to check whether the effectiveness of CBT differed between households that were ranked first and those ranked last. The results showed that at the start of the community meeting, CBT targeting was better than in the PMT, but it got worse as the meeting proceeded. That is, community effort mattered in CBT targeting performance.

To study the role of preferences and information, the authors used the following three alternative metrics. First, they asked survey respondent to rank a set of randomly selected villagers from rich to poor. Second, they asked the head of the sub-village to conduct the same exercise. Third, they asked each household to assess its own welfare level. The results showed that ranking of villagers was more correlated with these three alternate metrics than the ranking obtained in PMT. To explain these findings, the authors suggested that the community either had less information about different household's per-capita consumption than the PMT, or the community's conception of poverty differed from that based on per-capita consumption. The evidence suggested that the latter theory predominantly explained the results.

In an interesting study, Blumenstock et al (2015) showed that people's history of mobile

phone use can be used to infer their socioeconomic status. They used an anonymized dataset containing records of billions of interactions from Rwanda's largest mobile phone network. They supplemented this data with follow-up phone surveys of a sample of 856 individual subscribers. Using these data, they constructed a composite wealth index. Their results suggest that in resource-constrained contexts, where censuses and household surveys are limited, mobile phone data base can be an option for collecting localized and timely information.

One of the most obvious challenges of the self-targeting method is that it could be very inefficient. In a study in Indonesia, Alatas et al. (2016) experimentally study the efficacy of the self-targeting. They conduct a randomized experiment in Indonesia's Conditional Cash Transfer program, known as PKH. PKH provides beneficiaries with US $130 a year for six years. The program targets the poorest 5 to 10 percent of the population. The eligibility is determined based on 30 indicators of assets (e.g., size of house, materials used to construct household roof, motorbike ownership).[8] In collaboration with the Indonesian government, the authors experimentally varied the enrollment process for PKH across 400 villages. More specifically, they compare the following two methods: a) a process that required households to apply for the program, and b) the procedure that the government implements in other areas, in which asset test for potential beneficiaries at their home and automatically enrolled those that passed. In both cases, eligibility was determined based on an asset screen (i.e., PMT). In villages randomized to receive the application process "self-targeting", households had to go to a registration site to take an asset test. This meant that households had to travel few kilometers to the application site and wait in line to apply. Within these areas, the authors randomly varied the application costs by

[8] A potential problem with some of these household assets is that they could be results of subsidies provided to poor households.

varying the distance to the application site. In control areas (automatic screening villages), the usual government method was followed: a list of potential beneficiaries was prepared, and everyone was interviewed at their homes and those who passed the asset test were automatically enrolled. The results showed that requiring beneficiaries to apply for benefits resulted in substantially more poorer beneficiaries than in the automatic enrollment. However, marginally increasing application costs on an experimental basis did not further improve targeting. In other words, Alatas at el. (2016) find that if applying for benefit has a cost and if there is a good procedure for screening out unsuitable applicants, the people who should not be getting the benefit will foresee that they will be screened out and therefore they will not apply. This, in turn, may significantly improve efficacy of self-targeting method in targeting the poor.

Stoeffler et al (2016) assess the performance of PMT and CBT in a pilot cash transfer program in Cameroon. They employ several indicators and metrics to measure performance of both methods in terms of inclusion of poor households and exclusion of non-poor households. They find that CBT performs poorly in selecting households with low per capita consumption compared to PMT. CBT is more likely to select households with low physical and human capital, regardless of their consumption level. Their results suggest CBT methods should be used cautiously in selecting household with low per capita consumption, especially in an environment where poverty levels are high and state capacity is limited. CBT can be improved through more uniform and consistent guidance on program selection criteria and process.

Brown et al. (2018) examines the performance of various PMT methods using data for nine African countries. They find that the most used standard PMT method helps in filtering out the non-poor, but it leads to exclusion of many deserving poor people. Given their results, some of the lessons that they draw for future targeting of the poor are as follows. First, change the

current focus on inclusion errors of targeting to focus on exclusion errors. Second, remain open as to whether targeting using PMT is the best option. The most widely used form of PMT in practice does only slightly better on average than an untargeted universal basic income scheme, in which everyone gets the same transfer, whatever their characteristics are. Third, development programs may consider conducting ex ante evaluations of any proposed targeting method, which in some cases can be conducted with focus groups of relevant stakeholders.

Centralized targeting registries are often used to allocate social assistance benefits.[9] There are two design issues that are key for targeting accuracy. First, which households to survey for inclusion in the registry. Second, how to rank surveyed households. Bah et al. (2019) attempt to identify their relative importance by evaluating Indonesia's Unified Database for Social Protection Programs (UDB), which is one of the largest targeting registries in the world. Using administrative data with an independent household survey, they find that the UDB system is more progressive than the program-specific targeting approaches. However, in a simulation of an alternative targeting system that enumerates all households, they find a one-third reduction in under-coverage of the poor compared to focusing on households registered with the UDB. Finally, there is a large gain in targeting accuracy from an improvement in the initial registration stage (i.e., accuracy in selection of households for survey) compared to an improvement in ranking stage (i.e., ranking method).

Recently, participatory methods of targeting the poor have received increasing attention. Karlan and Thuysbaert (2019) examine the effectiveness of a hybrid two-step process that combines a participatory wealth ranking and a verification household survey, relative to two PMT (i.e., the Progress out of Poverty Index and a Housing Index) in Honduras and Peru. These

[9] There are two important considerations with these registries. First, how updated they are. Second, they are not always available.

three methods perform similarly according to various performance indicators. They identify most accurately the poorest and the wealthiest households but have mixed results among the households in the middle of the distribution. Thus, the authors suggests that costs should be the driving consideration in choosing across methods, which may vary across contexts.

Low-income countries significantly spend on subsidies. Typically, beneficiaries are selected using either a PMT or through a decentralized process led by local leaders. In theory, a decentralized process offers informational advantages; however, it is prone to elite capture. Basurto et al. (2020) study this trade-off in the context of two subsidy programs in Malawi (for agricultural inputs and food). Both programs were decentralized to traditional leaders who were asked to target the needy. Using household panel data, the study finds the evidence that both the local leaders and the PMT miss a substantial fraction of poor people, but that the local leaders miss significantly more. Also, local leaders are more likely to target food subsidies to their relatives. However, nepotism by local leaders have minimal aggregate welfare consequences since their relatives are as poor as other villagers.

Dervisevic et al. (2020) analyze how local leaders make targeting decisions in the context of a public workfare program in the Lao People's Democratic Republic. They find that village heads prioritized the ultra-poor households in their villages. The study benchmarks this decentralized method to PMT test method and find that village heads were as progressive as a PMT method. To generate insights into what poverty-related information village heads could be incorporating into their internal selection decisions, the authors designed and administered a set of exercises for village heads to rank villagers on land ownership, access to nutrition, and experience with recent shocks. They document that the perceptions of the village heads differed substantially from actual levels reported in surveys of the villagers themselves. Then using a

data-driven machine learning approach to identify the predictors of village head selection, the study finds that the village heads relied on a combination of easily observable household characteristics and a holistic impression of household welfare rather than specific indicators (e.g., land ownership, nutrition, or economic shocks).

4. Evidence from multifaceted program targeting the Ultra-poor

A common characteristics of IFAD projects is that they are multifaceted, often including the components of asset transfer, training, and production (agriculture and livestock). But do they work? While IFAD projects are routinely evaluated for their impacts, given that they are not designed or rolled out as experiments, there remains a question mark regarding *causal* evidence on their impacts.[10] To put it differently, are there scientific empirical bases for multifaceted programming of IFAD projects? In this section, a brief survey of recent experimental evidence on multifaceted targeting of the ultra-poor is provided, which supports IFAD's approach of multifaceted projects and programming.

Banerjee et al. (2015) and Bandiera et al. (2017) provide experimental evidence from seven countries for a multi-faceted "graduation" program, consisting of three components: (a) a transfer of productive assets, (b) two years of training and coaching, and (c) access to a saving account. The program increased net worth, income, and consumption. Blattman et al. (2016) find that the ultra-poor, war-affected women in northern Uganda have high returns to a package of (a) $150 cash, (b) five days of business skills training, and (c) ongoing supervision. Sixteen months

[10] This does not imply that the impact evaluations conducted by IFAD projects, or the IFAD Independent Evaluation Office are not useful. Also, this does not imply that qualitative studies and evidence are not useful. Rather, here the focus is on clear attributions of the changes in outcomes observed that can be attributed to IFAD projects per se, accounting for the contribution of other possible contributing factors. For this, counterfactual analysis is required. While it is possible to identify causal impacts from using longitudinal data, such data are not often collected or are not collected at a high frequently to allow estimation of causal impacts, accounting for various fixed-effects, given that targeted rural areas may differ in other unobservable and time-variant characteristics.

after the program, the microenterprise ownership and income of the program participants doubled. In addition, the study finds that while the ultra-poor have little social capital, their group bonds, informal insurance, and cooperative activities can be induced for positive outcomes.

Bedoya et al. (2019) investigates whether the Targeting the Ultra-Poor program (TUP, henceforth) can lift ultra-poor households out of poverty in a fragile context, Afghanistan. In 80 villages in Balkh province of Afghanistan, 1,219 ultra-poor households were randomly assigned to a treatment or control group. Women in treatment households received a one-off "big push" package, which included (a) a transfer of livestock assets, (b) cash consumption stipend, (c) skills training, and (d) coaching. One year after the conclusion of the program, there were large impacts on consumption, assets, psychological well-being, financial inclusion, and women's empowerment. More specifically, per capita consumption increased by 30 percent compared to the control group, and the share of households below the national poverty line decreased from 82 percent in the control group to 62 percent in the treatment group. Under modest assumptions about consumption impacts, the program's estimated internal rate of return is 26 percent, excluding improvements in psychological well-being, women's empowerment, and children's health and education. From these results, the authors conclude that multifaceted interventions can reduce poverty in fragile regions. In other words, the findings of this study suggest that the possibility of lifting even ultra-poor households out of poverty by multifaceted programming via 'productive' project component and not only via social protection.

There are two broad views on why poor people stay poor. One view emphasizes differences in factors such as ability, talent, and motivation. In the alternative view, the poverty trap view, differences in opportunities which stem from access to wealth are emphasized. To test

between these two views, Balboni et al (2021) study a large-scale randomized asset transfer program (i.e., provision of cows) in rural Bangladesh. Using 11 years of panel data on 6,000 households who began as ultra-poor, the study finds strong evidence for the poverty traps view. More specifically, the study shows that *large enough transfers* to the ultra-poor, which create better jobs for them, are an effective means of getting them out of poverty traps.

But is a multi-faceted program necessary to fight extreme poverty? The preceding studies suggest that it is necessary. The single-faceted programs work if the binding constraint on the ultra-poor is their lack of wealth and access to finances. However, recent studies on the psychology of poverty suggest that poverty impedes the cognitive function of the poor (Sendhil and Shafir, 2013; Mani et al., 2013; and Haushofer and Fehr, 2014; Schilbach et el., 2016). Individual decision-making is affected by potential individual biases. According to the studies on the psychological consequences of poverty, the poor are mentally taxed. Therefore, they are more subject to biases and judgement errors, given their preoccupation with hunger, management of sporadic income, and juggling expenses. Thus, given the psychological consequences poverty, single-faceted programs cannot work. The success of TUP programs suggests that building the agency of the ultra-poor is required to lift them out of poverty.

Anti-poverty programs often face a trade-off between immediate reduction in poverty (e.g., consumption) and long-term asset accumulation. Chowdhury et al (2021) look at this trade-off among the beneficiaries of an ultra-poor graduation model in Bangladesh. They find that on average, graduation model improves both consumption and asset accumulation, but it does not imply the absence of a trade-off between immediate consumption and long-term asset accumulation. Their results show a significant variation in impact on assets where the top quintile group had an impact of 3.44 on their log of assets compared to the impact of 1.92

observed in the bottom quintile group. Importantly, they find that the characteristics of beneficiaries who made the most in assets vs. consumption differ. In examining the heterogeneity of impacts by baseline characteristics, they find a trade-off between the gains in wealth and consumption. The top gainers of wealth are older participants whereas the top gainers of consumption are younger beneficiaries. Women with greater involvement in household decision-making at baseline are more likely to be in the high impact groups for expenditure, but the other way around for wealth accumulation. Other factors in heterogeneity of impacts are baseline savings, assets, and expenditure of households; community-level factor such as distance to market and paved roads.

Do "big-push" programs have long-term effects? Banerjee at el. (2021) study the long-run effects of a such program that provided a large asset transfer to the ultra-poor Indian households. In a randomized controlled trial that followed these households over 10 years, the study finds positive effects on consumption, food security, income, and health. Further, these effects grew for the first seven years following the transfer and persisted until year 10. One mechanism through which the program had long-term effect is that treated households took better advantage of opportunities to diversify into more lucrative employment, especially through migration. However, it must be noted that migration is not what anti-poverty programs intend to incentivize.

5. Limitations of Targeting Approaches to the Ultra-poor

From Section 3, one gets a good sense of the efficacies of alternative targeting methods. In this section, only the idiosyncratic limitations of each method are highlighted.[11] To appreciate the relevance of the identified limitations of different methods, it must be noted that IFAD

[11] There are two reasons for this. First, there exist review studies on the relative strengths and limitations of alternative targeting methods (Codey, et al., 2004). Second, here the focus is on the respective limitations that are supported by rigorous empirical evidence.

projects largely use geographic, demographic, and self-targeting and CBT. Over time, however, given IFAD's focus on gender-inclusiveness and inclusion of disadvantaged and marginalized groups, the demographic and CBT targeting methods have gained currency.

PMT: These methods require high literacy and detailed data on economic characteristics of households, and they are administratively demanding (e.g., require literate staff and high level of information and technology). Given that these methods rely on availability of detailed household data, they are not able to capture transient economic shocks that may affect current welfare of households. Among other limitations, some people find PMT methods arbitrary, especially given the measurement errors associated with household survey data.

Categorical targeting: Geographic, demographic, and self-targeting methods are also known as categorical targeting methods. While the geographical targeting of the poor has the potential advantage of being administratively simple and less labor intensive (especially at relatively large geographical units of measurement), its efficacy in targeting the poor largely depends on whether the poor are concentrated geographically and the size of the geographical unit. Otherwise, a program may end up benefiting a high number of non-poor individuals or households. Demographic targeting is also administratively simple, but its efficacy in identifying the poor depends on whether demographic characteristics of potential program beneficiaries are correlated with poverty. Self-targeting method has the risk of creating stigma and mistargeting (either exclusion of a deserving household or inclusion of a non-deserving household), which is a serious concern. Therefore, depending on contexts, the self-targeting method could be highly inefficient, requiring monitoring.

CBT methods: Given the limitations of the preceding methods, CBT methods have become

intuitively more appealing as they rely on community members who may be in a better position to observe the idiosyncratic shocks faced by other community members. For example, community members may know if their neighbors experienced bad harvests or experienced deaths in the family. Thus, it is generally assumed that the CBT methods capture more dynamic welfare information than the alternative methods (Chambers, 1994). But is this assumption correct?

To test it, Trachtman et al. (2021) conduct lab-in-the-field experiments and community meeting exercises with 300 families in Central Java, Indonesia. Participants were asked individually to rank other community members on specific welfare indicators (consumption, neediness, and assets) and complete targeting tasks. The study documents the following important results. First, community members had relatively little dynamic welfare information about other community members. The dynamic information that community members provided about others were different from the information collected in a separate survey conducted by the authors. In addition, participants were unable to accurately report whether randomly chosen households in their community had faced a negative shock or received a windfall, COVID-19 related benefits. Among those who were able to report, they accurately identified self-reported shock victims only 13% of the time and accurately identified COVID-related social beneficiaries 68% of the time. In contrast, simple PMT methods, which used 10 observable proxies to predict per capita consumption score, outperformed CBT method in predicting survey-based dynamic welfare ranks. These results clearly suggest that CBT methods reflect very little dynamic information about community members.

Second, the information community members had mostly reflected long-term welfare, which they used both to predict more dynamic welfare metric rankings and to target transfers to

the ultra-poor. Third, when community members were asked to target transfers jointly, the outcomes were like when individuals performed targeting by themselves. That is, individual participant targeting task rankings and community meeting rankings were very similar.

Taken together, the results of Tranchtman et al (2021) suggest that community members use information about the same types of easily observable long-term welfare proxies that are used in PMT methods. In other words, the assumption that CBT methods capture dynamic information about welfare of other community members may not be accurate. Therefore, CBT methods may not be always appropriate in targeting households based on current welfare status. However, CBT methods are more socially acceptable, given that they involve community participation.

6. Conclusions and Implications for IFAD

In this paper, an attempt was made to highlight targeting of the poor and the ultra-poor, different methods of their targeting, IFAD's targeting approach, and evidence on efficacies of alternative targeting methods and effectiveness of multifaceted targeting of the poor. From the review of the relevant IFAD policy and synthesis reports and the recent economics literature on poverty and targeting of the poor, the following conclusions are clear.

- The difference between the poor and non-poor is not just about income or access to economic resources. While the poor have less economic resources and social capital than the non-poor, they also suffer from the psychological consequences of poverty. The poor and the ultra-poor are more subject to biases and judgement errors in their decision-making, which in turn may perpetuate their poverty.
- While IFAD focuses on the poor and the ultra-poor, its target group is much broader than the target group of the poor studied in economics literature. More specifically, the

poor and the ultra-poor are a subset of IFAD's target group, which also includes women, other marginalized groups (e.g., indigenous communities, people living with disabilities), people who are vulnerable to poverty, and some non-poor households.

- Commonly used targeting methods are PMT, categorical targeting (geographical, demographic, and self-targeting), and CBT. However, the most used methods by IFAD projects are direct targeting and self-targeting. In addition, IFAD's choice of targeting methods is very contextual, differing from one country to another.
- IFAD is more effective in targeting the poor compared to targeting of the ultra-poor.
- While the efficacy of IFAD's targeting of the poor largely depends on local project implementation staff, the resources allocated for the capacity building of local project staff is inadequate.
- For IFAD, social acceptability of targeting method is more important than the importance it receives in economics literature.
- The efficacy of self-targeting method in targeting the poor can be improved by requiring potential beneficiaries to apply for benefits.
- The PMT methods are better at filtering out the non-poor, but they lead to exclusion of many deserving poor people.
- While there is no consistent evidence that CBT methods are superior to other methods of targeting, they are more socially acceptable. Therefore, CBT methods have more local legitimacy, and they generate higher satisfaction rates among the local communities.
- For the efficacy of CBT methods in targeting the poor, the level of community effort is an important factor. In addition, community's conception of poverty differs from that based on per-capita consumption.

- While it is generally assumed that community members have dynamic information about the welfare of other community members, the available experimental evidence suggests otherwise.
- The poor stay poor not because of their low ability, talent, and motivation. Rather, they stay poor because of differences in opportunities that stem from access to wealth.
- Multifaceted anti-poverty programs are effective in uplifting even the ultra-poor out of poverty trap, including in politically fragile regions. In addition, such programs have long-term positive effects.

6.1. Implications for IFAD's targeting of the poor

Considering the preceding conclusions and IFAD's current approach to targeting of the poor, some of the implications are as follows.

- ***IFAD should consider clearly defining its target group***: Given IFAD's mission on improving the livelihoods of the rural poor and its reliance on working in partnership with local governments, the definition of its target group appears logical. However, it is confusing, leaving each project to figure out its own target group. For example, often IFAD target groups also include the non-poor who are vulnerable, women, and other socially marginalized and disadvantaged groups. As a result, while implementation of a project become more politically possible, it loses focus on the poor and the ultra-poor *per se*. Therefore, IFAD may reconsider defining the target group more clearly, without losing the focus on the rural poor, and accordingly revise the targeting guidelines.

  One potential alternative is as follows. Since IFAD works in rural areas, it can define the target group by a unit of rural area (e.g., village) within a larger geographical area that has been determined suitable for its projects. Such a geographical unit could be identified by

considering concentration/density of households, among other considerations. In doing so, IFAD keeps the focus on the rural poor and other subgroups (e.g., women and indigenous communities), given that each household in the identified geographical unit will be automatically eligible. This has the obvious benefit of eliminating the likelihood of excluding a deserving poor. The potential "cost" is the inclusion of more non-poor households, resulting in less efficient allocation of resources. But there are ways to minimize this risk. Instead of identifying the rural poor, the focus can be on excluding the rural non-poor. In a geographical unit, the households can voluntarily choose to opt out from participating in a project, if they consider themselves to be non-poor. In other words, IFAD should aim to improve the livelihoods of both the poor in a rural area, by focusing on excluding the households that are clearly non-poor. The informational requirements for identifying a poor household in a rural area is much higher than the informational requirements for identifying a clearly non-poor household. Such an approach will also be consistent with LNOB principle.

In doing so, without diluting its mission, IFAD will dramatically clarify its target group, which will bring additional advantages. For instance, given the current definition of the target group, it is challenging (if not impossible) to conduct comparative evaluations of IFAD projects even within a country. But with a well-defined target group, as suggested above, learning across projects and impact evaluations will be easier and more compelling.

- ***IFAD should consider country-specific targeting strategy*:** Directly related to the preceding recommendation, IFAD's current global targeting policy and guidelines are generic, lacking systematic concrete guidance that project teams in a country can easily follow and implement. For example, in some countries geographic targeting appears to be more suitable than CBT. Different methods of targeting have found different level of efficacies in different

countries. Therefore, it may be worthwhile for IFAD to consider developing country-specific targeting guidelines. In doing so, it will be possible for different projects in a specific country to learn from each other. In other words, in the absence of well-defined target groups and different targeting strategies, which vary across countries, learning across projects and countries are limited.

- ***Invest more in the capacity building of local project implementation team:*** A small number of interviews were conducted with country officers of IFAD to elicit their country and field experiences. All of them identified the capacity of local project team among the most crucial factors in successful implementation of IFAD projects. However, they also identified the lack of sufficient investment in the capacity building of local project teams, who often struggle in complying with IFAD's targeting and implementation strategies. Therefore, more investment in the capacity building of the local teams will be beneficial, especially if IFAD continues with the current operational model and definition of the target group.

- ***IFAD should consider incorporating programming elements that promote agency of the rural people***: While IFAD projects often include the components of asset transfers, training, and agricultural production, they largely focus on improving the economic livelihoods of the target group. It is possible that this multifaceted programming may also be improving the capacity of the target group, they may not be necessarily improving their agency. This is important especially in the context of new findings on the psychological consequences of poverty, showing that poverty impedes the cognitive function of the poor, which makes them more vulnerable to biases and judgement errors in decision-making. Thus, IFAD may consider identifying and including distinct project elements that are intended to improve the

agency of the targeted group, their ability to take advantage of the opportunities. For example, it is well-documented that the poor and other socially marginalized groups (e.g., women) in developing countries have poor agency that can also be attributed to local sociocultural and gender norms. In such cases, unless the psychological consequences of poverty are addressed and agency of the target group is improved, the impacts of IFAD programs will be suboptimal and will unsustainable beyond the project lifecycle.

To renew an emphasis on building the agency of the rural poor, IFAD may further explore coordination and partnerships between its projects, especially with social protection programs, beyond identifying and incorporating distinct agency component to a project. Moreover, the renewed focus on the agency of the poor will require IFAD to develop a systematic framework to measure agency, monitor it, and account for it in the impact evaluation of a project.

- ***Consider significant asset transfer to the ultra-poor:*** The findings of recent experimental studies on multifaceted targeting of the ultra-poor across developing countries show that the poor stay poor because they are in poverty traps, lacking sufficient asset to build upon. Therefore, a "significant" and "meaningful" asset transfer will be required to provide the "big push" needed to break their poverty traps. While IFAD's multifaceted projects often include asset transfer to the poor, it may re-examine the amount of asset that it usually provides to the poor.

  The "big push" idea raises two related questions. First, how do we know what meaningful assets transfers are in a particular context? Second, what is the cost of such transfers? Both can be addressed by conducting situational analysis, including local market system analysis to identify demands for goods that can be locally produced and supplied by the rural poor,

and by re-evaluating and reallocating resources among the different arms of a project. The first and second generations of IFAD projects used to have social mobilization, but the current generation of the projects rarely engage with the potential project participants in the project development and design. Engagement with the potential participants in the development and design of a project may also in identifying meaningful assets transfers.

- ***Further emphasize evidence-based programming and generating causal evidence on impacts of IFAD projects***: Over the years, IFAD has recognized the importance of evidence-based project development and implementation. For example, there is an increasing recognition for documenting rigorous evidence on impacts of IFAD projects. Since IFAD9, IFAD Management has started conducting impact assessments of projects. Under IFAD10 and IFAD11, and foreseeably under IFAD12, IFAD Management conducts impact assessments on 15 per cent of its portfolio of projects, based on quasi-experimental design (and sometimes in the absence of a baseline). It uses such assessment to project overall impact estimates based on meta-analysis techniques. This effort is positive, the question is that, for 85 per cent of the portfolio, it is the government that conducts impact studies on its own. This raises the issue of the importance of providing technical backstopping to governments and quality enhancement so that their work meets minimum quality.

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