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Official Development Assistance and Poverty Reduction Strategies:

A critical examination of the “New Poverty Agenda”

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Abstract

Development assistance or aid as we know today was created in the post-war years. During the 1950s and 1960s three main factors contributed to the expansion of development assistance to developing countries. They are cold war rivalry between the Soviet Union and United States which led to the expansion of bilateral aid, the wave of independence from mid 1940s onwards that created a need and demand for aid, and the formation of multilateral organization such as the United Nations' Agencies and the World Bank. Over the years donors have provided a number of justifications for providing development assistance. They include economic reasons, political/strategic or security reasons, and humanitarian reasons including poverty reduction.

Poverty reduction as an objective of development assistance, have received varying levels importance in the history of development assistance. Poverty reduction was the main focus of development assistance in the 1970s. This focus was soon over taken by the 'oil crises' and the mounting debt problems of poor counters. In 1990s, poverty reduction re-emerged as the main focus of development assistance. This study had generally focused on tracing the place of poverty reduction in development assistance and assessing the degree of change and continuity in development practice. More specifically, this study examined the 'new poverty agenda' with the aim of comparing and contrasting it with past development strategies.

The historical review of development assistance and poverty reduction revealed that development practice had mostly been based on the dominant theories and ideologies in donor countries, as opposed to ideas and needs of the recipients. Even though poverty reduction has often been quoted as one of the important objectives of development assistance, in practice it has always been dominated by objectives such as increasing economic growth, debt repayment or promotion of macroeconomic reform. The historical review of the effectiveness of development assistance also revealed that it has not been very successful in reducing poverty in poor countries. While at times it had been successful in helping the poor, this was often at the expense of the 'other' poor. Similarly, development practice had not been very successful in reaching the 'poorest of the poor' in recipient countries.

The study reviewed 'new poverty agenda' through the World Development Reports (1990-200/2001), the International Development Targets and key concepts of the agenda. The review of the 'new poverty reduction' agenda was mixed. From a purely theoretical basis the 'new poverty agenda' have many positive points including the consensus on the multi-dimensional nature of poverty, country 'ownership' of development strategies and partnership with recipient countries. The multi-dimensional view poverty and the International Development Targets for achieving poverty reduction has raised the issues previously neglected such as social security and empowerment. On the other hand, the 'new poverty agenda' was found to be built around some of the main elements of the neo-liberal ideology of the past few decades. The importance attached to income-based approaches and the emphasis on economic growth and other related aspects such as making markets work for the poor and expanding people's productive assets in the World Development Report 2000/2001 showed that economic development is still given priority over all other dimensions of poverty. In spite of the recognition of the multi-dimensional nature of poverty it was not matched by a multi-dimensional approach to poverty reduction in its policy prescriptions. At the same time the practice of poverty reduction in the 1990s points to the gap between the rhetoric and reality.

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Chapter 1: SETTING THE SCENE

1.1 The aim of the study

Development assistance from developed countries to developing countries has been transferred in variety of forms, through various channels and for a number of purposes. Foreign assistance, or official development assistance, is provided by three broad groups of donors. These are, bilateral donors, multilateral agencies and non-governmental organizations (NGOs). Donors, particularly bilateral donors, provide development assistance for many reasons including political, strategic, commercial and humanitarian (World Development Report, 1990: 127). The most frequently quoted objective of development assistance is economic development and poverty reduction in poor countries. This study focuses on this development objective with a primary focus on poverty reduction.

Poverty reduction has received varying levels of importance at different times in the history of development assistance. During the 1950s and 1960s the main (stated) objective of development assistance was economic development of the developing countries. It was believed that the benefits of economic growth would 'trickle-down' to the poor. In the mid-1970s poverty became a more prominent issue amongst development practitioners. This period of poverty focus enjoyed a brief history as world recession and balance-of-payments problems in poor countries led to 'policy-based adjustment lending'. Since the beginning of the 1990s poverty reduction is promoted (once again) as the major aim of development assistance.

While the study has a general focus on tracing the place of poverty in development assistance, it has three main objectives:

1. To review past poverty reduction strategies and their success and failures.
2. To review the causes of the 'new poverty agenda'.
3. To assess the degree of change and continuity between past strategies with current strategies

1.2 Scope, rationale and research method

This study does not involve any primary research but draws from the literature on official development assistance and poverty reduction. Even though emergency or relief aid is highly relevant to poverty and often included in statistics of official aid, the study only focuses on effectiveness of long-term assistance such as projects and programme aid.

In reviewing the effectiveness of poverty reduction, the study focuses on the development policies and practices of the World Bank. The World Bank is chosen, as it is a development agency that determines and reflects conventional thinking in development practice among the major donors. The World Bank acts as a consciousness raiser on development issues at the international level. It draws attention to issues of development and contributes new ideas on how to address these issues. Poverty reduction is one such area. For example, the World Bank was at the forefront of the poverty reduction strategy in the 1970s, and has virtually become the centre of knowledge on poverty in the new 'poverty reduction agenda'. The World Bank performs this role through many channels such as its publications (e.g. sector policy papers, World Development Reports), collaboration with other donors and research programs.

This study does not directly focus as much on other donors, but at times reviews the policies of other donors insofar that they influence or share policies of the World Bank. In this respect the policies of both multilateral donors, such as those of agencies of the United Nations and bilateral donors like Depart for International Development (DFID) of the United Kingdom and United States Agencies for International Development (USAID) are considered. In addition, the study draws from statistics of Development Assistance Committee (DAC) of Organization for Economic Co-operation and Development (OECD).

In summary, the study the main objectives of this study is tracing the place of poverty in development aid, both in historically and at present and assesses the degree of change and continuity between past and present approaches. The rest of the chapter provides definitions for main concepts such as poverty and official development assistance and provides a detailed chapter outline for subsequent chapters.

1.3 Poverty

1.3.1 What is poverty?

This section provides a discussion of poverty and concepts of poverty. The argument provided here is that there is no one correct definition for poverty or a correct approach to understanding poverty. Hence, one way of understanding poverty is to understand the difference approaches of conceptualising poverty.

Alcock (1997: 5) in his book '*Understanding Poverty*' argues that the first thing to understand about poverty is that it cannot be defined by adopting the 'correct approach'. There are a number of problems associated with defining 'the poor' or poverty.

- Firstly, there is no 'correct approach' to defining poverty, as it is a concept, which has distinct meaning for different people (Baulch, 1999)
- Secondly, in real life 'the poor' are heterogeneous and it is misleading to talk about 'the poor' as a single category of people (Healey and Killick (2000: 227). For example there are many levels and types of poverty which are often described by words such as 'absolute poor', 'relative poor', 'chronic poor' and 'transitional poor' to name a few.
- Thirdly, poverty has many dimensions and while an individual or group of people may be classed as poor according to one dimension, they may not be poor by another

Hence, it is not surprising that there are numerous definitions of poverty. Disagreements over the definitions of poverty are associated with disagreements over the causes of poverty, how to measure it and how to reduce poverty. In practice all these issues of definition, poverty assessment and policy prescriptions are interrelated. Poverty concepts can be approached from many perspectives. One way of understanding poverty is by looking at how the concepts evolved over time. The evolution of poverty over time has

been characterised by a broadening of the definition and causal structure of poverty. The evolution of concepts of poverty is outlined in the following section.

1.3.2 Income/consumption poverty

Traditional poverty measurement has been dominated by this approach. This approach assumes that people are poor if their income/consumption falls below a stated 'minimum' level. The income/consumption method is also known as the monetary-metric method as the income indicators are based on consumption expenditure and regardless of how it is measured it is expressed in monetary terms. This method of defining poverty is one of the oldest definitions of poverty. It continues to play an important part in contemporary poverty assessments.

1.3.3 People-centred development: Dudley Seers

Another vision of development starts from people as opposed to economic development. Dudley Seers is probably the first author to use such an approach. In his article 'The meaning of Development' (Seers, 1969) challenged the dominant view of development, which emphasized productivity and increasing GNP per capita.

According to Seers, humans require certain conditions to live to their full potential. These conditions are

- The capacity to obtain the physical necessities (particularly food).
- A job (not necessarily paid employment).
- Equality, which should also be considered as an objective in its own right.
- Participation in government.
- Belonging to a truly independent country.
- Adequate education (at least literacy).

Hence, in addition to absolute material needs such as food and the means of obtaining this (a job) he emphasised other social and political needs. Even though Seers challenged the dominant view of development as economic growth, he was not totally against it. His argued for an emphasis on human needs and equity alongside economic growth

1.3.4 Mainstream Basic Human Needs (BHN)

The above-mentioned people-centred approach to development is often categorised as a strand of BHN approach. While there are various strands of BHN approach, the prominent BHN strand which became mainstream with international development agencies in the 1970s was a much more narrower definition than the former. According to this definition poverty was the deprivation of a number of Basic Needs. The following quote by one of the main advocates of this approach, Streeten (et al. 1981: 25), shows the main levels of deprivation identified by the approach.

Basic Needs can be interpreted as the minimum specified quantities of such things as food, clothing, shelter, water and sanitation that are necessary to prevent ill health, undernourishment and the like...

Thus this Basic Needs approach takes the income approach one step further but it is a narrower definition than that provided by Seers (1969/1979).

1.3.5 Poverty as lack of capabilities and freedom

This approach to poverty is based on the work of Amartya Sen's work, which sees poverty as deprivation of certain basic capabilities needed for human functioning. Sen's capability approach includes both basic capabilities (e.g income, health, education) and other instrumental capabilities such as human rights and civil rights. Recently Sen (1999) has extended the argument that development is about expanding the freedom of people. According to Sen, human freedom is a much more broader definition of development than those approaches that identify development with GNP growth rates or rise in personal incomes.

Sen (1999) identified five different types of instrumental freedoms- political freedom, economic facilities, social opportunities, transparency guarantees and protective security. He argued that these freedoms contribute to the general capabilities of people to live more freely. In this approach freedom is viewed as both the '*primary end and means*' of development (Sen, 1999: 36). The human poverty approach attempts to measure poverty in terms of outcomes. Most capability indicators are straightforward:

life expectancy, literacy rates, and malnutrition. But those areas such as participation in society are more difficult to measure and are not easily quantifiable.

1.3.6 Human Poverty Approach: United Nations

UNDP's Human Development Index (HDI) and the more recent Human Poverty Index (HPI) reflect a 'people-centred development' approach to development. These approaches have been highly influenced by Sen's 'capabilities and freedoms' approach. Since 1990 UNDP has produced the Human Development Index (HDI). Human Development Index is an average of indices of what UNDP considers to be the three most important aspects of human development including:

- Life expectancy which measures the capability to live a long and healthy life
- Adult literacy and mean years of schooling measures capability of acquiring knowledge
- Material standard of living, measured by GDP per capita (in PPP dollars) measures access to resources needed for a decent standard of living.

Recently UNDP has also produced a Human Poverty Index (HPI). HPI is an average of three (or four for developed countries) measures of deprivation

- Vulnerability to death at a early age
- Deprivation of knowledge
- Lack of decent living standard

(Allen and Thomas, 2000)

1.3.7 From physiological deprivation to sociological deprivation

The above discussion demonstrated that concepts of poverty are derived from the perceived causes of poverty, which can be divided into two types of deprivation: physiological and sociological deprivations. According to the physiological deprivation approach the causes of poverty are lack of food, clothing and shelter. Often the deprivations of physiological needs are measured by income/consumption approach to poverty. The sociological deprivation approach rejects conceptions of poverty solely based on physiological needs. The perception of poverty as sociological deprivations is based on the notion of social inequalities.

The broadening of poverty as both physiological and sociological deprivations has also been partly responsible for changes in the way poverty is measured. For example, while materials needs such as food and shelter lends readily to 'objective' measurements dimensions sociological measures such 'empowerment' and 'participation' does not lend itself to objective measurements. The most relevant way to measure them is participatory method involving poor communities whereby the poor are given a change to explain what poverty means to them (*see appendix for assessment tools*).

1.3.8 Absolute poverty versus relative poverty

Poverty is viewed as either 'absolute' deprivation or 'relative' deprivation. Absolute poverty is a definition based on the notion of subsistence or the minimum needed to sustain life. According to this definition people living below the subsistence level are living in absolute poverty. This notion of absolute poverty has often been associated with the early work of Booth (1889) and Rowntree (1901, 1941) [cited in Oppenheim and Harker, 1996]. According to Rowntree:

My primary poverty line represents the minimum sum on which physical efficiency could be maintained. It was a bare standard of subsistence...such a minimum does not by any means constitute a reasonable living wage

In contrast relative poverty is based on a comparison between the standard of living of the poor and the standard of living of other members of the society who are not poor. Based on this an average standard of living in the society is determined and poverty is defined according to this average standard. Hence, relative definitions of poverty are seen to be more subjective than the objective measures. This view of poverty is often associated with the work of Townsend (1979 cited Oppenheim and Harker, 1996) According to Townsend:

Individuals, families and groups in the population can be said to be in poverty when they lack the resource to obtain the types of diets, participate in the activities and have the living conditions and amenities which are customary, or at least widely accepted and approved, in the societies to which it belong

This definition poverty is not just about lack of money but also about the exclusion from the customs of society. While the notion of relative poverty has gained importance in recent debates (especially in the academic field) ‘absolute’ poverty continues to play an important role in development practice. For example, in the ‘new poverty agenda’ the international donor community have accepted the World Bank definition of the ‘poor’ as those receiving an income of less than one dollar a day.

1.3.9 The multidimensional nature of poverty

The conception of poverty has changed dramatically during the last decade. Comparing the definition of poverty used in the 1990 World Development Report and 2000/1 World Development Report shows how the concept had widened over the decade. The 1990 World development Report defined poverty as ‘inability to attain a minimum standard of living’. This definition of poverty is an example of the traditional income/consumption approach (mentioned in above discussion) whereby people are classified as poor if they do not meet a minimum standard of consumption or standard of living.

In contrast 2000/1 World Development Report defined poverty as:

Poor people live without fundamental freedom of action and choice that the better-off take for granted. They often lack adequate food and shelter, education and health, deprivations that keep them from leading the kind of life that everyone one values. They also face extreme vulnerability to ill health, economic dislocation, and natural disasters. And they are often exposed to ill treatment by the institutions of the state and the society and are powerless to influence key decisions affecting their lives. These are all the dimensions of poverty.

As can be seen from the quotes the definition of poverty used in the 2000/1 World Development Report is a much more broader definition of poverty than that was used in the 1990 World Development Report. The 2000/1 definition reflects the recent multi-dimensional view of poverty, which uses both physiological deprivations and sociological deprivations. This multi-dimensional view of poverty is also reflected in the

International Development Targets (IDTs- discussed in detail in chapter four), which identified economic, social and environmental development goals.

The above discussion showed that poverty is not an easy term to define. One of the main reasons for this is the multi-dimensional and context-specific nature of poverty. The evolution of poverty concepts has seen the widening of the concept leading to a 'consensus' on the multi-dimensional nature of poverty. Yet, traditional methods or indicators such as 'absolute poverty' and measurements such 'income/consumption' continue to play a major part in the poverty assessment and monitoring of development agencies (e.g World Bank) and is reflected in the emphasis given to it the IDTs. In spite of a 'consensus' on poverty as a multi-dimensional concept there is no such 'consensus' on poverty assessment and monitoring. In this study the multi-dimensional view of poverty is used when referring to poverty and poverty reduction.

1.4 Official development Assistance (ODA) and Official Development Agencies

1.4.1 What is ODA?

Foreign aid or foreign assistance is at times used to describe a wide range of resource transfers from rich countries to poor countries. Since colonization began the imperial states have been transferring resources to invest in their colonies, usually in infrastructure projects (e.g. railways and ports to help in the transfer of raw materials), which after the Second World War came to be known as foreign aid or foreign assistance (White, J.A., 1974). In this definition foreign assistance, or simply aid, was regarded as all resource transfers from donor countries for all purposes. For example, this would include resource transfers from the private sector and resources for a variety of purposes such as military spending.

Since then the concept of foreign assistance has been revised. The Development Assistance Committee (OECD, 1969) made the first formal definition of foreign assistance. According to this definition development assistance resource flows should meet the following two criteria for it to be termed as Official Development Assistance (ODA)

1. The resources should be provided with the main objective of promoting economic development and welfare.
2. The financial terms should be on concessional.

A limitation of this definition was that the term “concessional” was not properly defined. Later on the concept of concessional flows was defined more explicitly by the DAC and adopted by all members of DAC and other Western Multilateral Agencies. According to the World Development Report (1985: ix) concessional flows are lending on terms more favourable to the borrower than those obtained through the market and it should have a grant element of at least 25% or more.

In most of this study development assistance or aid is used in the sense of Official Development Assistance. At times, the definition may not comply with the degree of concessionality of ODA. For example reference to development assistance, especially with regard to data prior to the 1960s may not comply with the strict definition.

1.4.2 Sources of Aid

There are three main sources of aid including bilateral aid, multilateral aid and aid from Non-governmental organizations (NGOs). Bilateral aid refers development assistance provided directly from one government (usually from a developed country) to another government (usually a less developed country). The largest and the oldest Bilateral Aid program is the United States Agency for International Development (USAID). In addition many developed countries including Japan, Germany, France, Denmark and the United Kingdom runs Bilateral programmes. Many bilateral donors practice aid tying. That is, the donors require a certain percentage of their Bilateral Aid to be spent on their goods and services. For example, 38.7% of Danish bilateral ODA, 25% of French bilateral ODA and 13.8% of UK bilateral must be used to purchase their good and services. Certain Bilateral donors continue to use ODA to subsidize governments that are believed to be strategically important to them (Allen and Thomas, 2000)

Multilateral aid refers to development assistance provided directly through ‘Multilateral Organizations’ such as the World Bank and the United Nations (UN) agencies such as UNDP and UNICEF. The Multilateral Organizations receives donations from developed

countries. Multilateral aid has become increasingly popular over the years, both for donors and recipients alike. From the donor side it offers the advantages of simplicity in administration of development fund without creating additional administrative staff. From the recipient's side multi-lateral aid was viewed (historically) favourably as it was free of aid tying and was thought to be free of political and economic interests of the donors (Agunga, 1997). The subsequent chapter would show that this is no longer true.

Funding from NGOs is another source of development assistance. The term NGOs is generally used to refer to private or community-based non-profit organization that are not direct appendages of any government or multilateral organization. However, the distinction may not be so clear at times, as many NGOs are largely funded by governments, or from other official sources (Allen and Thomas, 2000). For example, the Norwegian state largely finances the Norwegian Church Aid and some Japanese NGOs have been set up by government ministries (Allen and Thomas, 2000). Developmental NGOs mostly began as charitable relief organizations; often running small localized projects and is believed to be closer to the beneficiaries. The last three decades show a remarkable increase in the number of NGOs, both in the North and the South. They come in many forms, ranging from those that work at a local level, national level or international level. Some Northern-based NGOs such as Oxfam and World Vision have branches in the Southern countries in which they work. Several such agencies have been established (or started functioning at the international level) recently, partly due to the availability of ODA funds to contract NGOs (Allen and Thomas, 2000).

1.4.3 World Bank and International Monetary Fund (IMF)

The most important international financial institution of the post-war era, the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD), (now known as the World Bank) were created at the Bretton Woods Conference of the 1944. They were created in response to the need for reconstruction in Europe after the Second World War. The role of the IMF was stabilising currency exchange rates, while the World Bank's role was to facilitate foreign investment (Black, 1991: 71). Although these institutions are included in the UN system, in reality they work as a separate system from the rest of the UN. Both are run by 'dollar-a-vote' system placing them under the direct control of the rich countries (Allen and Thomas, 2000: 204).

Beginning in the 1960s, when foreign aid was no longer needed in Europe and Japan, the IMF and the World Bank turned their attention to the less developed countries. In 1960 it was given the responsibility of administering an ODA supported facility known as the International Development assistance Association (IDA). The IDA loans known as 'soft loans' or 'credits' are given to the poorest countries with a grace period of ten years. Most soft loans are classified as ODA (Allen and Thomas, 2000). In 1988 IDA provided about 3.8 billion dollars at concessionary terms (World Development Report, 1990).

1.4.4 United Nations

The United Nations (UN) was also created at the Bretton Woods Conference and has been involved in development since its inception. Even though according to the Charter, UN should be involved in promoting conditions for economic and social progress, until the 1960s the role of the organization was limited to providing advice to member governments (Allen, and Thomas, 2000: 198). Since the beginning of 1960s United Nations have been more involved in the field of development. The role of United Nations in development includes providing technical assistance and undertaking extensive research through its country programs; drawing international attention to development issues such as human development and poverty. The United Nations performs this role through a number of specialized agencies and programmes in the area of development. They include:

United Nations Development Programme (UNDP)

UNDP was established in 1965 and provides grants for 'sustainable development'. Most of its resources go to the world's poorest countries and usually have an office and staff based in recipient country. The UNDP publishes the annual 'Human Development Report'.

United Nations Children's Fund (UNICEF)

This agency was created in 1946, as a programme to meet the emergency needs of children. It expanded its operations considerably in the 1980s with its high profile 'primary health care' programmes in poor countries.

Food and Agricultural Organization (FAO)

FAO is a UN specialized agency which was created in 1945 with the aim of promoting rural development by improving agricultural production and food security. It also provides support for governments in preparation for and relief after crises such as floods, livestock disease outbreaks, draughts and other such disasters.

World Health Organization (WHO)

This is another UN specialized agency. It was established in 1948 and its main work is providing worldwide guidance on health issues. It works with recipient governments in planning, managing and evaluating national health programmes.

(Allen, and Thomas, 2000: 203)

International Labour Organization (ILO)

ILO is another UN specialized agency. It was founded in 1919 and is the only surviving major creation of the Treaty of Versailles. It provides technical for developing countries for employment generation related activities.

(ILO, [online])

1.4.5 Development Assistance Committee (DAC)

Development Assistance Committee was formed in 1960 as a forum for representatives of the OECD's major aid donors to discuss issues related to their aid programs. The Development Assistance Committee (DAC) of the OECD receives Official Development Assistance from twenty countries, who also run their own bilateral programs. Over the past four decades, the OECD member states have contributed about one-half to two-thirds of all official development assistance. However, they have never approached their collective goals of contributing 0.7% of their combined GDP set by the United Nations (see Table 1.1).

Table 1.1 ODA FROM DAC AS A PERCENTAGE OF GNP: LONG-TERM TREND

Year	1965	1970	1975	1980	1985	1990	1995	1997
As a% of GNP	0.48	0.34	0.35	0.37	0.35	0.32	0.27	0.22

(Sources: OECD National Accounts and DAC Statistics, cited in Randal et al. 1998:8)

In 1997, 70.5% of DAC aid was spent through bilateral programs of individual donors while 21.2% was spent through multilateral agencies (Randal et al., 1998: 8). The performance of DAC members as a whole and those of individual member vary according to the measurement criteria used.

One method of measurement is using ODA volumes. In this respect the total amounts contributed by DAC is greater than any other donor group. When considering individual donors in this respect, in 1997 Japan, France and United States respectively occupied the top positions (*see Table 1.2*)

An alternative method of measurement is to focus on ODA as a percentage of DAC donors' GNP. When individual donors are assessed in terms of ODA as a percentage of their GNP (in 1997), Denmark, Norway, the Netherlands and Sweden occupies the top rungs (and meets the 0.7% target) while Japan, Italy and United States occupied the lowest rungs (*see Table 1.2*)

Table 1.2 Performance of selected DAC donors in terms of ODA volume (in \$US millions) and donors' GNP 1997

Country	ODA Volume	ODA as a % of GNP
Japan	9358	0.22
France	6348	0.45
United States	6168	0.08
Germany	5913	0.28
United Kingdom	3371	0.26
Denmark	1635	0.97
Norway	1306	0.86
The Netherlands	2946	0.81
Sweden	1672	0.76

(Sources: OECD National Accounts and DAC Statistics, cited in Randal et al. 1998:8)

1.5 The origins and objectives of development assistance

1.5.1 The origins of development assistance

Many authors trace the origins of economic assistance to developing countries back to the colonial link between imperial powers and their overseas territories (Little and Clifford 1965, White, J.A., 1974 Mosley, 1987 and Browne, 1999). For example colonial powers such as Britain and France have been providing money on concessional terms for their colonies since the nineteenth century. Many authors agree that the immediate post-war era was an important period in the history of development assistance. Many of today's development agencies such as United Nations, World Bank and Oxfam were developed from organizations that were originally created to cater for the aftermath of War (Hjertholm and White, 2000 and Browne 1999).

A second process that prompted the expansion of aid was the growing Cold War rivalry between Soviet Union and the United States, first manifested by the Marshal Plan. The Marshal Plan provided aid from the United States to Europe, for the reconstruction of Europe after the Second World War. With the Marshal Plan under way, the President Truman decided to widen the geographical reach of United States and committed United

States to provide aid to underdeveloped countries. On the other side, the Soviet Union was rapidly expanding its own economic assistance programmes (Browne, 1999).

Another important feature of the post-war period (as a basis for expansion of aid) was the first wave of independence, which created a constituency for aid (Hjertholm and White, 2000). The Bandung meeting of newly independent countries in 1955 and the subsequent formation of the non-aligned movement are important events in the history of aid. This event was the first manifestation of third world solidarity (Browne, 1999) and created a constituency for aid (Hjertholm and White, 2000). At the same time the emergence of newly independent countries led to the need and demand for aid. This led to demands from newly independent countries for a Special United Nations Fund for Economic Development (SUNFED). Although initially the donors were opposed to the idea of concessional funds (Browne, 1999) it ultimately led to the formation of International Development Association (IDA) (an affiliate of World Bank) which lends on concessional terms. According to some authors the choice of World Bank (as opposed to UN) is very significant. Browne (1999) and Hjertholm and White (2000) argue that the fact that the soft loan window was created within the World Bank signalled the desire of donors to control the funding and the failure of recipient countries to effect donor aid policy (Hjertholm and White, 2000).

1.5.2 The objectives of development assistance

Whatever its precise origins, aid grew in importance in the post-war era and had become an important facet in international relations and development by the 1960s. Donor governments have provided aid to developing countries for many reasons. They include historical links, national self-interest, political and commercial reasons and humanitarian reasons (Riddell, 1987; White, J., 1974 and Agunga, 1997). Likewise, Browne (1999: 15) identified four different types of aid.

1. Multilateral aid which responds to development priorities
2. Bilateral-altruism aid which responds to perceived human needs
3. Bilateral political/strategic aid which underlines political influence
4. Bilateral-commercial aid which promotes trade and widen market

Two points need to be noted here. Firstly, the different objectives of aid giving are not mutually distinctive. That is, as White, J.A. (1974) argued often most of these objectives are present in varying degree in all if not most development assistance. Secondly, the actual objectives of development assistance and the stated (by donor) objectives of development assistance may not be the same thing at all times.

1.5.2.1 The moral case development assistance

While donors provide development assistance for many reasons, probably the most often quoted reason is the humanitarian reason or the moral case for aid. The moral case for aid began to appear regularly in official statements in the late 1950s and early 1960s. It was stated “boldly, repeatedly and usually without explanation” (Riddell, 1987: 6). For example in 1960s the United States under the presidency of Kennedy stated that their aid policy would be based on morality as opposed to the anti-communism they had been following in the past. Likewise, in 1965 United Kingdom published its white paper ‘*Aid to Developing Countries*’ which stated that the development assistance should be given not only for countries for which Britain had colonial responsibilities but also for other poor countries.

Once the leading donor countries had articulated the moral case for aid, it became part of the general conventional wisdom as shown by the Pearson’s report, ‘*Partners in Development*’ (Commission of International Development, 1969). This report posed the question ‘why aid?’ and stated that the simple answer to the question is that it is a moral obligation for those who have to share with the less fortunate.

1.5.2.2 Economic development and economic interest

A commonly stated objective for aid giving is a desire to accelerate the economic growth of developing countries. This objective has been promoted both as an objective and means for achieving other objectives. For example, economic growth in recipient countries is often promoted as the means of achieving the humanitarian objective or poverty reduction. On the other hand, for donors the most important reason for giving aid to poor countries is to promote the economic interest of donor countries and their businesses. The economic interest of donors takes two forms: the search for cheap raw

materials and establishment of markets for good produced in donor country (Agunga, 1997).

1.5.2.3 Political/strategic and security interest

Political/strategic aid and the security interest of donors has been an important objective of aid since its inception. United States' aid programme show the importance of donor security. For example, the purpose and meaning of foreign assistance during the post-war period was governed by the Cold War between the United States and Soviet Union and the strategic and security interest of the donors. Both United States and Soviet Union used aid to keep certain (strategically important) countries within their sphere of influence and out of other's. At the same time a large part of other Western European donors' aid programs typically coincided with United States and their destinations. Even when aid is provided for economic development projects such as infrastructure development projects it has more to do with politics and security than with economics. For example, aid from the United States Economic Support Fund (ESF) was provided mainly to countries of geopolitical interest (e.g. Israel, Egypt, Pakistan, the Philippines and Turkey) (Nijman and Grant, 2000). Presently, some countries quote security as a major objective of their aid programme. For example, according to United States and Australia poverty reduction and donor self interest govern their aid policy. Over the years the objectives of multilateral aid too have been complicated by the practice of donors to who sought to give specific geographical and other direction to their multilateral contributions (Browne 1999).

In conclusion, poverty reduction is just one objective of development assistance. There are many other objectives of development assistance (both stated and hidden) such as economic, political and security interest of donors. While this study focuses on the moral case for development assistance, it should be noted that at most times it would be impossible to separate the moral case from the other objectives of developments.

1.6 Does Development Assistance Reduce Poverty?

The effectiveness of development assistance has been a central and recurring theme in development debates. The discussion on aid effectiveness is very dependent on the

objective of aid, that is, on the question: “What is aid suppose to achieve?” (Christian Aid, 2000). While development assistance has been provided for many objectives, this study is focused on the effectiveness of development assistance in reducing poverty. It is generally accepted that aid can contribute to this either indirectly through its contribution to economic growth or directly through programmes target at poverty reduction (White, 1999).

Does development assistance reduce poverty? This is not an easy question to provide a straight ‘yes’ or ‘no’ answer. Advocates of aid including donors claim that aid leads to economic growth and poverty reduction. Moderate critics point out that aid only reduces poverty under certain conditions. On the other hand radical critiques argue that aid does not/cannot reduce poverty and that it does more harm than good to the poor.

Much of the literature that rejects aid comes from aid’s critics on both the left and right. For the writers on the radical right who advocate a free-market approach to economic development aid is a less and slower way of achieving development. For example, Friedman (1958: 78) argued that while economic development of poor countries is a desirable objective the means of achieving this (aid) is inappropriate for the objectives. He argued that foreign aid is more likely to retard the improvement in the well being of the population, strengthen the government sector over the private sector and undermine democracy and freedom in recipient countries. Bauer (1976) shares a similar view and argues that aid hinders development, as it is an intervention on the free-market system.

For those on the left the main objective of development assistance is not helping developing countries but promoting the political and strategic objects of donors. For example Hayter and Watson (1985) in *‘Aid: Reality and Rhetoric’* argued that overall objective of aid is to preserve a system of appropriation of wealth from developing countries to the donors. In other word its main aim is to perpetuate a system of neo-colonialism and hence aid therefore does more harm than good to the poor. Likewise Lappe et al (1980) in their book *‘Aid as Obstacles: twenty question about our Foreign Aid and the Hungry’* argued that rather than helping the poor aid hurts the poor. Writing about the American aid program they argue that United States’ aid allocation is based on political and strategic criteria as opposed to poverty reduction and it reinforces the

power of national elites (in poor countries) whose stronghold over resources generate poverty and hunger in the first place.

On the other hand, donors and advocates of aid continue to argue that aid can and does help in the development of poor countries. For example, a recent World Bank publication (2001) *'The Role and Effectiveness of Development Assistance: Lessons from World Bank Experiences'* (which reviewed the experience of development assistance over the past fifty years) argued that development assistance has been successful in helping to improve the well-being of the poor and its effectiveness has improved overtime. The report pointed out to progress in areas of health (20% increase in life expectancy within the last 40 years), education (reduction of literacy by nearly half within the last 30 years) and a slight reduction in income poverty in the last twenty years. At the same time the report acknowledged that progress in development has been uneven. For example, Sub-Saharan Africa saw no increase in its per capita income over the last 35 years and life expectancy fell from 50 years in 1990 to 47 years by 1999 (World Bank, 2000c).

1.7 Chapter Outline

As shown by the above discussion, development aid was securely established following the Second War World and its expansion was fuelled by the Cold War and the wave of independence, which accelerated during the 1950s and 1960s. Since its interception the rationale for providing aid has evolved through several phases. This study presents these phases as four periods of development: Rapid Economic Development (1950-1970), and Basic Needs (1970-1980), 'Washington Consensus' (1980-1990) and the 'new poverty agenda' (1990-). These periods are not wholly distinct and overlap at times. Yet, they help to illustrate and explain dominant development theories and practices associated with the time frame. This chapter provided the background for this study. The following provides a chapter outline for the rest of the chapters.

Chapter Two 'Effectiveness of Development Assistance - From Rapid Economic Growth to Poverty Reduction' provides a review of two of the above-mentioned periods. That is, it provides a review of both 'Growth-oriented theories' and 'Basic Needs'

approaches to development. At the same time the chapter provides a review of the practice and effectiveness of these development theories.

Chapter Three 'From 'Washington Consensus' back to Poverty Reduction

The first part of this chapter provides a discussion of the 'Washington-Consensus' and 'Structural Adjustment Lending' of World Bank, and its implication for developing countries. The second part of the chapter provides a discussion of the events leading to the 'new poverty agenda'.

Chapter Four The 'new poverty agenda'

This chapter is focussed on the 'new poverty agenda' and discusses the main elements of the agenda. It also provides a discussion of more recent research on the effectiveness of development assistance in terms of poverty reduction.

Chapter Five concludes the study.

Before proceeding with the rest of the chapters it should be noted here that assessing the effectiveness of aid in improving the welfare of the poor is a difficult issue. The following summarizes some of the difficulties of evaluating the effectiveness of aid.

1.7.1 Some problems with evaluating effectiveness of aid

1. Lag factor: - all aid has a lag time, that is period between when aid is first used and when the effects of the aid become evident. For example, one should not expect aid provided for project, which takes years to be completed to be effective at once (Cassen et al. 1994). At the same time aid is given for many different purposes and in much different forms. Different types of aid have different lag-time and all aid is not effective at one time. For example, it takes comparatively longer for aid on human development to show its effects.
2. The issue of cause and effect: - most studies on aid are based on some correlation between aid and some economic or social indicator. For example many studies on the macroeconomic impact of aid try to find a relationship between aid and growth. Yet, a correlation between aid and low growth rates does not explain whether it was the low growth rates, which caused the aid giving or vice versa.

3. The difficulties of comparing studies: - The existing literature lacks a strong analytical framework that can be used to compare and evaluate the various studies.
4. Lack of information: – Generally there is a lack of information regarding the effectiveness of development projects/programmes. For example according to Cassen et al. (1994) only 10% of projects have been evaluated. Furthermore, when project effects are evaluated the results are not available to wider public. For example while Cassen et al. (1994) has conducted the most comprehensive evaluation of aid effectiveness based on case studies of many aid financed projects/programs, most of these case studies have not been published.
5. More importantly (to this study) there is a lack of information on the effectiveness of development assistance in poverty reduction. It is common practice to measure ‘success’ of projects by the rates of economic returns (ERR). For example, the cumulated project audits for the 1960s and 1970s showed that the economic returns of projects were on average 17% (Cassen et al. 1994) and ERR for World Bank projects reached 25% in the 1990s (World Bank, 2000a). Evaluating aid’s effectiveness based on ERR does not say anything about its impact on poverty.

1.8 Summary

This chapter has set the scene for the study. It explained the aim, scope and research method employed. In addition the chapter also provided overview of the main concepts and themes of this study including poverty, ODA and effectiveness of development assistance. The discussion of this chapter enlightened the difficulties involved in defining poverty. The main reason being that there is no one correct definitions for the concept instead there are many concepts of poverty, which are related to the different dimensions of poverty. Hence the chapter has provided a short overview of the major poverty concepts leading to the more recent multi-dimensional view of poverty.

The chapter also provided an overview of development assistance. It looked at the 'official' definition of ODA and a brief introduction of major donors. This section also provided a short review of the objectives of development assistance. The focus of this was to show that even though development and poverty reduction is the most often quoted objective of development assistance, there are often other objectives such as economic and political objectives.

Finally the chapter highlighted some of the problems associated with evaluating the effectiveness of development assistance. The main problems with evaluating the effectiveness of development assistance were the lack of literature, especially in relations to the effectiveness of aid in reduction poverty. The next chapter is focussed on the early history of development assistance and its effectiveness, especially in terms of the objective of poverty reduction.