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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 asic 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 ' 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.

Chapter 2: FROM RAPID ECONOMIC GROWTH TO POVERTY ALLEVIATION

The rationale for providing development aid has evolved through a number of stages or periods. This section provides a review of the major development theories that fashioned development practice from early 1960 to late 1970s. This time frame can be divided into two periods. That is, the 1960s when development practice was fashioned by ‘Growth-oriented’ theories and the 1970s when development practice was fashioned by the theories of ‘Redistribution with Growth’, Basic Needs and ‘Employment Generation’. This section provides a review of these development theories and development practices associated with it. Firstly, it provides a discussion of the ‘Growth-oriented’ theories and a review of literature on the effectiveness of these theories. Secondly, it provides a review of the ‘Redistribution with Growth’ and ‘Basic Needs’ approaches to development. Finally, the section provides a review of the effectiveness of ‘Integrated Rural Development Projects’, which embodies ideas from both GWE and Basic Needs.

2.1 Growth-oriented development theories

Foreign assistance theory was established in the mid to late 1950s (Riddell (1987). During this period donors drew their inspiration and strategies of development from the theoretical work Western development economists. The work of Western economists Rostow and Harrod-Domar and later on Chenery and Strout played an important role in fashioning early development theories or the Modernisation paradigm. The Modernisation paradigm was based on the assumption that economic development progressed in stages ultimately leading to self-sustaining growth. According to the Modernisation paradigm development was considered to be change from a ‘traditional society’ to a ‘modern’ society (Rostow, 1960). Modernity or development was seen to be synonymous with economic growth, measured by increases in Gross National Product (GNP) per capita. Hence, GNP growth was the objective and yardstick for measuring development (Thorbecke, 2000). During this time direct poverty reduction was not a focus of development aid. It was assumed that the benefits of aggregate growth would ‘trickle-down’ to the poor in the form of more jobs and social benefits (Todaro, 1996).

2.1.1 Rostow's stages of growth and Harrod-Domar growth model

The American economist Walt W. Rostow was one of the most influential advocates of the theoretical case for development assistance. Rostow's theory presented in the book, '*The Stages of Economic Growth: A Non-Communist Manifesto*' (1960) has been used to argue that aid can be an important instrument for accelerating economic development in poor countries. According to this growth model, the process of development occurred in a series of successive stages all less developed countries had to pass through in order to reach the level of development attained by the developed countries. The five stages of Rostow's model are:

1. The traditional society
2. The preconditions for growth
3. The stage of 'take-off' (into self-sustaining growth)
4. The drive to maturity
5. The era of mass consumption.

This five-stage model is based on the growth of industrialized countries, which provided an interpretation for stages through which the less developed countries had to pass in order to reach towards self-sustaining growth (Rostow, 1960). The most important stage of this model is believed to be the third stage termed 'take-off' and the most important factor for launching into the 'take-off' is increasing the level of savings to invest in economic growth (Rostow, 1956). Hence, it was argued that aid could accelerate the development process of poor countries by providing the necessary investment to 'take-off'.

The economic mechanism through which more investments in capital lead to higher growth was explained by another economic model, the Harrod-Domar Growth Model. The original Harrod-Domar model is based on the three elements of income, savings and the incremental capital/output ratio. The capital/output ratio is the relationship of additional investment to additional output. Put simply this model states that there is a positive economic relationship between the size of the capital stock and GNP. In other words the more a country saves (out of a given GNP) and invests the savings in the form capital stock, the more the increase in the GNP. According to Rostow (1956), a savings rate of 5-10 percent or more is needed to launch into the stage of 'take-off'.

2.1.2 Rosenstein-Rodan: theory of international aid

Rosenstein-Rodan (1961) was among the first economists to provide theoretical justification of aid for providing economic assistance to developing countries. According to him the purpose of international aid to developing countries was to accelerate their economic development to the point of self-sustaining growth. Hence, like Rostow, Rosenstein-Rodan believed that it was possible for all countries to reach a level self-sustaining growth. In addition both Rosenstein-Rodan and Rostow shared the view that aid was only a temporary measure and should only be provided until the recipients reaches a level of self-sustaining growth.

For Rosenstein-Rodan the most important barrier was lack of efforts by developing countries and the role of aid is to maximize efforts for development. He stressed that the principle element in the transition from an underdeveloped economy to a self-sustaining one is the efforts of recipient countries and without this effort foreign aid would be wasted. According to Rosenstein-Rodan (1961), ideally aid should be allocated where it will have maximum effect on mobilizing national efforts for development. Thus, the primary aim of aid is not to maximize income created per dollar aid, but to maximize additional efforts of recipients. He stressed that if this was the aim of aid, the dollars invested in developing countries might show better results.

2.1.3 Chenery and Strout: The 'two-gap' theory

The original Harrod-Domar model that assumes only a saving constraint on growth was expanded in the influential Chenery and Strout (1966) two-gap model. While Rostow and Harrod-Domar provided an economic explanation for the role of aid in accelerating the speed of development in third world countries, Chenery and Strout provided the most detailed theoretical explanation for role of development assistance in economic growth. In terms of Rostow's stages of growth the Chenery/Strout model was focused on the second stage: the preconditions for take-off.

Chenery and Strout (1966) argued that successful accelerated growth requires a simultaneous increase in skills, domestic savings, and export earnings and the attempts by developing countries to accelerate growth could be hampered by the failure to

achieve some of these requirements. More specifically Chenery and Strout's model divided the transition to self-sustaining growth into three phases and identified two different types of 'bottlenecks' or gaps, which hamper economic development at different stages in development.

The first gap was termed 'investment gap' characterised by both a short supply of savings and skills. The 'investment gap' is a character of the first phase of development. The second gap 'trade-gap' is caused by a short supply of foreign exchange because export earnings are lower than imports. This is considered to be a character of the third stage (the second stage is a transitional phase) of development. It is believed foreign assistance can fill these gaps through the provision of investments, technical assistance and foreign exchange to finance imports.

Like Rosenstein-Rodan, Chenery and Strout also placed great emphasis on the structure of the economy in recipient countries. For example, they argued that the effects of aid on the development process might be 'large or small' depending on how the recipient country responds to the increased resource flows. Likewise they argued that the space of structural change sets the lower limit to the time needed to complete the transition to self-sustaining growth. Hence, the objective of aid is not just filling these gaps, but also more importantly persuading the recipient countries to take the necessary steps for accelerated growth.

The theoretical case for development assistance perceived development to occur in stages, ultimately leading to self-sustaining growth. Hence, aid was seen just as a temporary measure needed until recipients reach the stage of self-sustaining growth. At the same time aid was promoted more as a means of accelerating economic development in poor countries rather than as a requirement for economic growth. According to these models external development assistance can help the developing countries to accelerate their economic growth by bridging the domestic resource gaps (such as capital, knowledge, foreign exchange). In addition both Rosenstein-Rodan and Chenery and Strout believed that aid would also provide incentives to maximize national efforts toward achieving self-sustaining growth.

2.2 Growth-oriented aid and poverty: the empirical evidence

The effectiveness of aid has been a central and recurring theme in development literature and the question of whether aid works or not have been approached from many directions. Often the impact of aid has been evaluated both at the macro-economic level and the micro-economic level (Hansen and Tarp, 2000). This sections reviews literature on macro-economic impact and its implication for poverty.

When aid began in the modern form and increased its importance in the late 1950s underdevelopment was seen as being caused by a shortage of investment or capital (Rostow and Harrod-Domar), later expanded to 'savings' and 'foreign exchange' gaps (Chenery and Strout, 1966). Hence the role of aid was believed to be the provision of capital equipment which developing countries were not able to finance. Infrastructure projects were particularly favoured. As late as the mid-1970s, 52% of total OECD aid went to project aid. The majority of this (nearly two thirds) went to infrastructure projects such as roads, railways, sewerage, airports, port, power stations and telecommunications (OECD, 1997). The assumption was that investment in these sectors would lead to aggregate growth and the benefits of the growth would 'trickle-down' to the poor.

In early work on aid effectiveness, the analytic framework was mostly based on finding the macroeconomic impacted of aid on savings/investments and aggregate growth.

Table 2.1 Economic growth and the poor: a summary of empirical evidence

1. Kuznets (1955)			Inequality of income distribution increases during the early phase of economic development
2. Griffin and Enos (1970)			Aid receipts appear to reduce domestic savings, and hence does not add to investment or lead to increased economic growth
3. Fishlow (1972)	Income distribution of Brazil	1960s	During the 1960s relative inequality increased, the situation of the poor worsened
4. Weisskoff (1973)	Income distribution in Mexico, Argentina and Brazil	1950- 1963	GNP per capital increase between the period but the income share of the lowest income groups declined.
5. Adelman and Morris (1973)	Income data from 43 developing countries	1960s	GNP increased but the poorest 60% of the population received only 26% of total incomes while top 5% of the population received 30% of the total income
6. Mosley et al, 1987			There is no significant correlation between aid and growth when other causal influenced on growth are taken into account

During the early part of the 1970s researchers such as Griffin and Enos (1970) and Weisskoff (1973) challenged the view that increased aid leads to increase domestic saving. Griffin and Enos (1970) argued that aid actually leads to decrease in domestic saving and that their studies on twelve Latin American countries found a significant negative relation between aid and growth.

At the same time Weiskoff (1970), Fishlow (1972) and Adelman and Morris (1973) showed that economic growth was accompanied by worsening of the relative position of the poor. That is, increases in economic growth correspond to an increase in inequality. This view was in line with the earlier findings of Kuznet (1955). After conducting research on the economic growth in several countries (Brazil, Mexico, Korea, Sri Lanka, Taiwan and Yugoslavia) Kuznet showed that distribution of income worsened in the early phase economic growth (but would improve thereafter).

The defence of the positive relationship based on the traditional foreign aid theory followed these studies. The defence was lead by Papanek (1972 and 1973). According to Papanek (1973) the studies that found a negative correlation between aid and growth had their correlation and causality muddled up. He argued that the fact that aid is related to low saving does not mean that aid is the dominant cause of low savings. Rightly he argued that the high aid flow could very well be reaction to low savings and growth. The second line of defence from Papanek was that some of these studies have used all kinds of resource flows and hence, conclusions about the specific influence of aid cannot be deduced from these studies. While the arguments by Papanek provided some defence on the lack of empirical evidence on the relationship between aid and economic growth, it did not address the issue of economic growth and income inequality raised by authors such as Fishlow, (1972) and Adelman and Moris, (1973).

More recently many authors (e.g. Mosley, 1987; Riddell, 1987; Cassen et al., 1994 and White, 1992) have surveyed the literature on the macro-economic impact of aid. The reviews of early empirical data on aid effectiveness revealed the lack of consensus on the macroeconomic impact of aid. According to Riddell (1987) cross-country tests on the macroeconomic impact of aid has not provided consistence results. For Riddell (1987), the available evidence is inadequate either to prove critics right or to prove supporters wrong. White (1992) stated that we know surprisingly very little about aid's macro-economic impact. Mosley 1987 criticized the earlier research for being based on a very simple model derived from the Harrod-Domar model.

Mosley pointed out that earlier research did not include other important determinants of growth such as 'stock of human capital'. Hence, Mosley (1987) used an expanded model (for example, using changes in literacy rate as an indicator of human capital stock) to re-

evaluate the macro-economic impact of aid using data from 1960 to 1980. After re-evaluating data, Mosley (1987) concluded that there is no statistically significant correlation (either positive or negative) between inflows of development aid and the growth rate of GNP in developing countries in any post-war period, when other causal influences are taken into account. Having reached this conclusion, Mosley (1987) pointed that individual project evaluation reports (from 1960s to 1980) from development agencies showed high success rates. For example, Mostly (1987) quoted the case of the World Bank's project reports, which claims average rates of return of over 10% over the period of 1961-81. Mosley (1987:139) named this lack of positive macro-economic impact of aid in combination with the favourable result of micro-based as the 'macro-micro paradox'. The 1990s show the continuation of the debate on the macro-economic impact of aid growth and the factors that would increase the impact of aid on growth (*see chapter 4*).

In summary, early-developed theories suggested that the main reasons for lack of development in poor countries are capital or savings gap. Hence, it was perceived that foreign aid could fill these gaps and 'launch' these countries into sustainable economic growth. Following a decade of foreign aid (mostly to capital intense infrastructure development projects) and research on aid's impact on economic growth in recipient countries, it was perceived that aid was not contributing to economic growth as envisaged. The 1970s showed the emergence of poverty reduction on the agenda of international development agencies. The next section provides a review of the approaches to poverty reduction that was promoted by the major development agencies and a review of the impact of aid on poverty over this period.

2.3 Employment, Basic Needs and Redistribution with Growth

By the 1970s (partly as a result of the above mentioned studies) many authors were questioning the effectiveness of the growth-oriented strategies for the development of poor countries. The assumption that aggregate growth is synonymous with economic and social development came under critical scrutiny and was being rejected in many circles (Thorbecke, 2000). A number of studies conducted by the International Labour Organization (ILO, 1976) highlighted the issue of raising high and raising levels of unemployment in poor countries. Hence, by the mid-1970s poverty became a more prominent issue among development practitioners. Many ideas or theories of

development associated with poverty alleviation emerged during the 1970s. This section provides a discussion of three such theories: 'Redistribution with Growth' and 'Basic Needs' and 'Employment Generation Model'.

2.3.1 Redistribution with Growth

The World Bank under Robert McNamara played a major role in bringing poverty to international focus. McNamara's celebrated speech to the World Bank Board of Government in Nairobi in 1973 and the subsequent publication of '*Redistribution with Growth*' played a major role in institutionalising poverty (Mihevc, 1995: 47). During the 1970s McNamara made eight different addresses whose major theme was poverty reduction. Two major themes came out of the speeches. That is the need to continue with the focus on economic growth while at the same time increasing the impact of growth on the poor (Ayres, 1983).

Shortly after McNamara's Nairobi Address the World Bank's Development Research Centre working jointly with the Institute of Development Studies of Sussex produced the 'Redistribution with Growth' (Chenery et al., 1974). This book outlined the World Bank's general policy for poverty alleviation, which was basically the strategy outlined in McNamara's speeches. The books acknowledged the fact that rapid growth in under developed countries had been of little or no benefit for majority of the poor in these countries. This is because in the early stages of development the distribution of income tends to be concentrated in the hands of the richest groups. At the same time the report stressed that increased economic growth does not *necessarily* have to lead to increase in relative inequality.

In the introductory chapter of the volume Chenery (1974: xv) argued that while some countries showed high increases in GNP and little or no benefit to the poor, in other countries (Israel, Yugoslavia, Korea, Sri Lanka, Costa Rica and Tanzania) the poor has shared more equally in income growth. According to Chenery (1974) the countries that had achieved a more equitable distribution of income are those that have taken positive action towards the poor in the form of increased access to education, modern employment and public investments to offset the disadvantages to the poor that occurs during the early phase of development.

Hence, Chenery argued that there is no inherent conflict between rapid economic growth and equity and improvements in the lives of the poorest. The message was that the negative impacts of growth identified in the 'Kuznet's Curve' could be overcome when economic growth is combined with positive actions toward the poor. If we are to use the more recent concepts this could be seen as an argument for not just growth but 'pro-poor' growth. The underlying policy implications of 'Redistribution with Growth' were based on this diagnosis. Ahluwalia and Chenery (1974:48) suggested four strategies for poverty reduction:

1. Maximizing GNP growth
2. Redistribution of investments to poor groups
3. Redistribution of income to poverty groups
4. Transfer of existing assets to poverty groups

After discussing the four strategies they concluded (1974: 234) that the best strategies were maximizing growth and redistribution of transfers, with more emphasis on the later. They saw a considerable potential for raising income of poor groups by transfer of investments.

The volume emphasized the alleviation of absolute poverty over relative inequality. In chapter one of the volume Ahluwalia made a fundamental distinction between relative poverty and absolute poverty. Relative poverty or inequality was defined as the extent to which the income share of groups of individuals differs from their population share. Absolute poverty was defined by a per capita amount, that is those living below per capita incomes of US\$ 50 and 75 in 1971 prices. By using this definition on average about one third of the world lived in absolute poverty. As a result the World Bank's poverty reduction focus was aimed combating at absolute poverty.

2.3.2 Basic Needs

The second strategy that came out during the early 1970s was the 'Basic Needs' approach, which was partially advocated by the International Labour Organization (ILO) (Thorbecke, 2000). This approach was first suggested in Third World Forum (1975). In this forum the Dag Hammarskold Foundation argued that the satisfaction of needs

should be at the core of the development process (Ayres, 1984). Following this the central theme of the World Employment Conference 1976 of the ILO was the importance of making Basic Needs satisfaction the prime focus of national and international development (ILO, 1976).

Basic Needs, as identified in the ILO Report *'Employment, Growth and Basic Needs: A One-World Problem'* (1976) had two main elements. The first included certain minimum requirements of private or family consumption:

- Adequate Food
- Shelter
- Clothing
- Basic household equipments

The second element included some essentials services needed by the whole community:

- Safe drinking water
- Basic Health
- Basic Education

'Basic Needs' as suggested by the Dag Hammarskjold Foundation and later elaborated through the United Nations shared some common elements with those outlined in 'Redistribution with Growth'. At the same time it had some identifiable differences, especially in terms of practical application. For example, the development ideology outlined in the 'Redistribution with Growth' is a more indirect means of poverty reduction and hence can be seen to be closer to the development ideology of 'trickle-down'. On the contrary the Basic Needs approach was direct and more efficient than those outlined in 'Redistribution with Growth' (Streeten, 1981). While the later called for 'Rural Development Schemes' and 'Urban Problems' the 'Basic Needs' approach called on specification of basic human needs as the first objective of development. In other words while the early development theories and 'Redistribution with Growth' focussed on economic growth the 'Basic Needs' approach suggested that the focus of aid should shift from investments in capital projects to development in human resources.

2.3.3 Employment Generation Model

During the 1960s officials from the International Labour Organization (ILO) visited a number of developing countries (e.g. Sri Lanka, Kenya and Columbia). During these visits the officials observed widespread unemployment in these countries. At the same time the official discovered the local 'informal sector' (made up small traders, retailers and carpenters) whose major problem was lack of capital. According to ILO one of the main reasons for the raising level of unemployment was that those poor in the 'informal activities' were often discriminated against due to market imperfections or inappropriate development strategies (ILO, 1976). Hence, ILO argued for a switch from growth of GNP to an emphasis on 'employment generation' activities, especially for the local 'informal sector' The 'Employment Generation Model' was also closely related to the idea of 'appropriate technology'. The idea behind 'appropriate technology' was that Western capital-intensive technologies were inappropriate for developing countries. What the developing countries needed was labour intensive 'intermediate' technologies that would be more appropriate developing countries (Agunga, 1997).

During the late 1960s and early 1970s realization of growing inequality and unemployment in poor countries and the inability of growth-oriented theories to deal with these problems resulted in a poverty focus in development assistance. This led to the emergence of many theories on how to alleviate poverty in poor countries. These included theories on increasing employment, meeting basic needs and continuing the emphasis on growth with focus on equity (Redistribution with Growth). In terms of development practice, the 'Redistribution with Growth' strategy promoted by the World Bank became the more favoured of development agencies.

2.4 Poverty-oriented development projects

2.4.1 Integrated Rural Development Projects

The development tool of the 1970s was the Integrated Rural Development Project (IRDP). These projects represented an effort to attack rural poverty by addressing simultaneously the multiple obstacles in the way of rural development. The idea was that the nature of the process of rural development (where the majority of the world poor lived) and the size of the problem in promoting economic and social progress in rural

areas required actions be taken in several areas simultaneously (Cassen et al. 1994). The World Bank and USAID were the major promoters of IRDPs. In 1974 the World Bank invested about \$500 million in IRDP and this amount was doubled by 1975. In 1975 IRDPs accounted for about half of total World Bank lending. World Bank lending to IRDPs peaked between 1978 and 1980 and then started to fall (Agunga, 1997).

Integrated Rural Development Projects were multi-sectoral agricultural projects, which were to be targeted on 'poor' groups such as the marginal farmer, landless and farm workers. The World Bank defined Rural Development projects as ones in which at least 50% of direct benefits goes to people within the poverty target group (Word Bank, 1975). Increasingly the concept of Integrated Rural Development was applied to Area Development or Regional Development Projects. Area Development Projects have a regional bias and are aimed at the rural producers in the area. Area Development Projects using the concept of Integrated Rural Development usually included:

- Agricultural credit for small farmers
- Irrigation works
- Agricultural Extension and Research
- Basic Rural Education
- Primary Health facilities.

Like rural development projects World Bank projects in urban areas were 'targeted' towards the urban poor. Urban projects were mainly focused on housing problems and employment generation. In terms of alleviating housing problems the Bank undertook two different types of projects, namely sites and services projects and slum upgrading projects. In sites and services projects land areas fitted with the main services such as water supply and sanitation were provided for the poor. The poor then built their own houses. Slum upgrading project emphasized on upgrading exiting shelter usually using self help methods (Ayers, 1983).

Apart from urban housing projects the Bank also undertook 'Small Scale Enterprise' projects aimed at increasing urban employment. These industries were seen to be more labour-intensive. When compared to housing projects, industrial projects were only a small part of the Banks landings.

While the aim of IRDPs was to improve the well-being of rural and urban poor, there was no consensus among various donors how this should be conducted and various donors gave different levels of importance for different sectors. An example of donors' sectoral preference from this time period was USAID's preference for agricultural research. According to Cassen (et al, 1994) USAID allocated 20% of its agriculture, rural development and nutrition allocations to agricultural research. On the other hand the World Bank and other multilateral agencies put more weight to irrigation works. According to the same authors between 1976-1980 22-30 per cent of multilateral aid went to irrigation.

2.4.2 Poverty-oriented projects and the poor

This section provides a discussion of projects 'targeting the poor' and their impact on the poor. The discussion draws heavily from the experience of IRDPs, which was the major form of poverty-oriented projects from the 1970s. While focussing on poverty-focussed projects it should be acknowledged that aid for other purposes have major affects on the poor (Cassen et al. 1994). Yet, these impacts are often ignored in other project work. For example, the World Bank's Report *Focus on Poverty* used rates of return and number of farmers reached as an indicator of effectiveness. The report had nothing on the effects of their projects on any particular income group (Mosely et al, 1987). Where donors, authors and reviewers (during the period under study) had examined the poverty impacts it has only been for poverty-oriented projects. Hence, the exclusive focus on poverty-oriented projects reflects the availability of literature.

A literature review on the effectiveness of IRDPs in achieving poverty reduction showed mixed results. Reviewers identified two main shortcomings of these projects. One of the major failures of these projects was the inability to reach down to the poorest groups in the rural areas (Mosley 1987 and Cassen et al, 1994, Lipton, 1981 and Ayers, 1984). Secondly, the effectiveness of the projects was decreased due to lack of donor co-ordination.

Mosley et al. (1987) discusses aid-financed projects from different donors and studies on their effectiveness in reaching the poor target groups (including a study of their own).

All of these projects were explicitly poverty focussed and Table (2.2) shows a summary of these studies.

Table 2.2 Poverty-orient project and the poor

Project	Analyst	Sponsor	Comments
Nepal Road project	Balaikei et al (1977)	UK/ODA	Gains to road transporters (mostly rich), loss to food porters (mostly poor)
Noakhai Bangladesh – Integrated rural development	DANIDA Board of auditors (1982)	DANIDA	Bottom 40% benefited, bottom 10% did not benefit.
Irrigation project – Muda, Malaysia	Bell et al. (1983)	World Bank	Benefits to all holder of the rice plots, possibly some loss to migrant workers

(Adapted from Mosley, 1987: Table 6.2 p. 166)

The summary of projects showed that these projects have been generally successful in reaching the poor, but not the poorest. For example, the IRDP in Bangladesh helped the bottom 40% of the population, which may not have been reached otherwise (from a non-targeted project) but failed to have benefit the bottom 10% of the population. Another notable issue is that these projects have been more successful in helping the poor with comparatively more assets, while at times harming the poorest at the same time. For example, the irrigation project assisted the holders of the rice plots while the migrant workers may have been made worse off. Similarly the road project in Nepal helped to increase the income of lorry drives and commercial farmers while the poor hill porters lost their sources of income as their services was no longer required.

Likewise Ayers' study of the World Bank financed IRDPs showed similar results. That is the case studies discussed by Ayers showed that some of the IRDPs were conducted in

very poor areas, which earlier non poverty-oriented project would never have reached. On the positive side the projects that the World Bank undertook during this period were in areas that were considerably poor on a national scale. For example, the World Bank funded rural development projects in extremely poor areas in Brazil, Nigeria and Tanzania (Ayers, 1983). Similarly in the urban areas of Brazil, Botswana, Thailand and Tanzania the World Bank produced sites-and-services projects, which provided shelter for the poor at very low rates (compared to public sector cost for housing)(Ayers, 1983). Hence, according to Ayers, if the World Bank's work since 1973 was evaluated against its past the period after 1973 earned a very high mark. At the same time Ayres argued that if the World Bank's rural development projects were evaluated in terms of reaching the 'poorest of the poor' the results is more mixed.

According to Ayers (1983: 103), the majority of the World Bank's rural development projects the principal beneficiaries were to be small-scale farmers who owned and operated their properties. That is, the vast majority of the RDPs undertaken by the World Bank the targeted beneficiaries excluded the landless, tenant farmers, sharecroppers and squatters. This focus on small operators as the principle target meant that the projects had no benefit for the poorest of the poor. Ayers's quote a Brazil project as an example. In this project the World Bank identified the 'directly reachable' target population as 15,000 families, which were about 20% of the project area. He points out that about 35% of the project area rural population were poor in the sense that there were temporary workers. In addition the World Bank itself stated that 'sharecroppers', who represent 20% of the population, would be difficult to reach directly.

2.4.3 Reasons for the failures: the donor side

A review of literature on the success and failure of poverty-focussed projects highlights some common reasons for failure. The major reasons for failure of poverty-focussed project (from the donor side) can be summarized as a lack of knowledge about the poor and a well thought out plan for reaching the poor and alleviating their constraints,

According to Agunga (1997) many IRDPs failed due to three main reasons. Firstly, the fundamental reason for the failure of projects, especially the IRDPs were that they were modelled according to the ambitions of the donor agencies, rather than on the needs and

concerns of the beneficiaries. Agunga (1997: 202) quoted the case of Upper Regional Agricultural Development Program (URADEP) of Ghana where the World Bank 'convinced' Ghana to change its request for a "uni-sectoral, single-crop and progressive farmer oriented development approach to a multilateral and integrated approach". According to Agunga (1997) even though the government of Ghana accepted the project, they did not feel that the structure proposed by the World Bank was the best. Yet they could not reject the project, as they desperately needed the development loan.

Secondly, Agunga (1997) argued that many IRDPs failed because they did not conduct systematic needs assessment. Agunga (1997) argued that feasibility studies, which rely on data from government ministries, are insufficient and that local people should be involved in the design and implementation of the programmes. Thirdly, Agunga (1997) pointed out that the IRDPs were based on systems approach and many of the staff responsible for administering the programmes did not appreciate the interconnected nature of development programming. Hence, according to Agunga (1997) the URADEP, (where the World Bank official collected data from only Ministry officials) did not have a chance to succeed as local participation and interagency cooperation guidelines never followed.

The agricultural projects (in table 2.2) too indicate that they may have been lacking in proper needs assessments. That is, the projects showed more success in helping farmers with assets such as land than those without assets and there were no strategies for dealing with these problems. Similarly, projects aimed at the poor had given little attention to some of the possible negative impacts that may accrue to 'other poor' and ways of overcoming this. The same shortcoming appears in the case of agricultural credit for small farmers. Poor farmers had been disqualified from credit projects because their holding maybe too small to serve as credit and larger farmers tend to get preferential access to credit.

The lack of knowledge and weakness of understanding is also shown in the case of agricultural research and extension projects. During this period the invention of modern varieties (MVs) of crops has been regarded as one of the greatest achievements. The major aim of agricultural extension was to provide the packages of modern seeds, fertilizers, and tools for poorest farmers. Yet many authors such as Lipton (1980)

pointed out that modern varieties brought about huge gains in production increase but it did not benefit the poorest groups. He pointed out that while about 40% of rural population cultivates MVs, except in Asia the poor in these regions have not benefited either in relative or absolute terms. For example, India while crop production doubled, there was no noticeable improvement in the nutrition of the poor (Lipton, 1980). The main reasons being that remote farmers in unirrigated areas practicing subsistence farming were not able to get the benefits of agricultural extension programs. In addition the success of research on wheat and rice (and maize to some extent) were not repeated with 'poor men's' crops such as sorghum, millets, taro etc (Cassen et al., 1994).

Livestock projects were an area of poor overall performance. Cassen et al (1994: 106) contributed the poor performance in Africa to:

- Lack of knowledge of social factors
- Weakness of technical base and low levels of understanding amongst outsiders of the nature of constraints
- Over-complex project design
- Unsatisfactory organization and management both within the project, government agencies, and donors
- The political weakness of pastoral populations

In conclusion, while some poor have gained from the poverty-focussed projects other poor have been excluded from the benefits of these projects. In addition, some project activities while benefiting one group of poor have put other groups of poor at a disadvantage. One of the main reasons for the failure of these poverty projects can be summarized lack of knowledge on poverty and needs of the poor, as well as a determined effort to reach the major of poor in a country or area.

2.4.4 Recipient side constraints

The above discussion has focussed mainly on the shortcoming of aid in reaching the poor. But at the same time it should be acknowledged that there are many constraints in recipient countries, which lessen the effectiveness of aid in helping to reach the poor. Although this section does not go into detail on these problems (which are often context specific), two general constraints and ideas on dealing with them are presented here.

They are the tendency for local elites (e.g. rural elites who were relatively well-off) to appropriate the benefits of projects and the macroeconomic environment of projects, which is often seen as having a negative impact on the economic success of projects.

2.4.4.1 *Is there room for manoeuvre?*

At the recipient level there are many political constraints at both the local and national level in the attempt to reach the poorest. The movement to policy-based lending (next chapter) can be seen as a strategy to overcome some of these constraints. On the other hand Riddell (1987) argued that critics are wrong to insist that political and power factors constitute a binding constraint on official development agencies attempting to reach the poor. He argued that even within the existing power structure there is 'room for manoeuvre' that is often underestimated.

Riddell (1987) drew from the work of Chambers (1978 cited in Riddell, 1987) to illustrate how projects can be made to be more beneficial for the poor. Chambers (1978 cited in Riddell, 1987), while pointing to the importance of political and power relations at the local level, argued that aid for the poor can be provided in ways that can limit the tendency of local elites to appropriate project benefits. According to Chambers (1978 cited in Riddell, 1987), projects targeted on poor can be divided into three categories:

- Those where gains for the poor occur only at the expense of local elites
- Those where elites can only gain benefit if poor also gains
- Where poor will gain but the elites are not interested in these gains

Chamber's argued that if projects for the poor were targeted to the last two categories the chance of local elites appropriating the benefits would be lessened (*see Table 2.3*).

Table 2.3 Gains and losses for elites and rural poor

Rural elite	Rural poor	Examples
Gain	Lose	<ul style="list-style-type: none"> • Enabling the elite to appropriate common property resources (e.g land, forests etc); denying these to others
Gain	Gain	<ul style="list-style-type: none"> • New services (health, water education) accessible for all
No change	Gain	<ul style="list-style-type: none"> • Credit enterprise for poor • Subsidized rations for poor • Appropriate technology (e.g. seeds, tools) for poor
Lose	Gain	<ul style="list-style-type: none"> • Land reform with inadequate compensation

(Source: Chamber, 1983: 162).

Citing these arguments from Chambers (1978, 1984), Riddell (1987) argued that there is scope for providing aid to the poorest. Aid's poor record in helping to alleviate poverty is linked to the failure to examine the different types of local constraints and finding ways around these problems.

2.5 From project aid to programme assistance

The move into poverty-focused aid in the early 1970s was accompanied by large expansion of the project mode of aid. The IRDPs made it possible for aid to be disbursed to many sectors including infrastructure, health, education, agricultural extension and urban development. The end of the 1970s established the project mode of aid in all sectors by most aid donors. However, there was dissatisfaction with this mode among donors. Mosley and Eeckhout (2000) identified three main issues that were seen as limiting the success of project based lending:

Firstly, the new projects were more complex and needed to be worked more through governments than the previous infrastructure building projects and were causing increasing implementation delays. By the end of the decade most donors were in need for a more speedy and flexible instrument for aid dispersal. Secondly, it was perceived that the success of projects was dependent on the external policy environment. It was

believed that the success of projects was being hampered by over-valued exchange rates and high inflation (Mosley and Eeckhout, 2000). More importantly by the end of the 1970s it was becoming clear that even though evaluation methods such as internal rate of revenue showed high rates of success, they maybe giving a partial and over-optimist view of effects of aid projects.

A number of explanations ranging from inaccurate measures to over-aggregation have been provided for the existence of this paradox (White, 1992). Another often-quoted explanation is aid's effect on public sector spending pattern. Aid's effect on the public sector is explained by the 'fungibility' of aid. Fungibility of aid is a term used to refer to the diversion of aid money intended for one purpose to other uses. The argument is that government have many project plans, some of which would have carried out with or without aid or for which money has already been allocated. If such programs get aid then the governments divert the money allocated to other projects, which has no impact on growth (e.g. military expenditure). For these reasons, the by the end of 1970s most donors were looking for ways to overcome these perceived problems of project aid. As a consequence donors favoured of financial programme aid over project aid (Mosley and Eeckhout, 2000). The financial 'crisis' of the late 1970s and associated problem of third world debt increased the speed of donor moves from project aid to programme aid (Mosley et al, 1991, Mosley and Eeckhout, 2000 and Killick et al, 1998).

2.6 Summary

The discussions of this chapter showed that development practice in the 1960s and 1970s was heavily influenced by theoretical arguments for aid, provided by Western economists. Based on these theories it was perceived that aid could help to accelerate the development of poor countries by providing capital and foreign exchange. Hence, during the 1960s (when aid became an important part of international development) majority of aid was provided in the form of project aid, especially for large infrastructure projects. In the 1970s aid practice moved to into poverty-focussed projects.

The later part of the 1960s showed increased attention on the effectiveness of aid. These early studies on aid effectiveness were mostly aimed at finding empirical evidence for or against the impact of aid perceived by the early economic development theories. The

results of these studies on the relationship between aid, saving/investment and growth were mainly inconclusive. Some studies showed negative relationships while others showed positive correlations. At the same time some authors pointed to a negative relationship between growth and income equality.

The effort to target poor produced mixed results. On the positive side these project helped some poor but on the negative side they failed to reach the poorest. One of the major reasons for the failure is lack of knowledge about the poor and more importantly a lack of conscious effort by donors to benefit the poor through well-designed strategies for reaching the poor. As Cassen et al (1994) argued donors could do more to benefit the poor (or at least not harm the poor) if they pay more attention to the poverty effects of all their projects.

On the donor side, during the 1970s many donors became unsatisfied with the project mode of lending. Some of the problems with project modality were its impact on the private sector and the fungibility of aid. While these problems were identified before the 1980s, the 'oil crises' of the 1970s and the subsequent debt problems increased the need for an instrument that can disburse funds more quickly than project aid. This resulted in the move into financial programme aid with its policy conditionality – policy based lending. The move into policy-based lending resulted in renewal of interest in aid effectiveness. Unlike the early generation of studies which were focussed on aid's impact on growth the new generation of aid effectiveness studies were concerned with the aid impact on policy. In addition attention during the later part of the 1980s was also drawn back once more to aid's impact on the poor. Policy-based lending and its effectiveness is the main focus of the next chapter.

Chapter 3: FROM ADJUSTMENT LENDING TO POVERTY REDUCTION

3.1 Policy-based adjustment lending

Poverty reduction was the main focus of aid in the early 1970s. In the latter part of the decade the World Bank and other international development agencies shifted their focus away from direct poverty reduction strategies to 'debt management' strategies. This was accompanied by a move from project aid to programme aid. Programme aid is given in cash (as opposed to assets in project aid) for the entire economy or a sector. Yet it should be pointed out that the distinction between project aid and programme aid is not clear-cut (Cassen et al., 1994).

The debt management strategy of 1980s came in the form of Adjustment Lending from the World Bank and from other donors who provided financial support for balance-of-payment problems that most developing countries were experiencing. Usually assistance from other donors were linked to World Bank operations (Mosley and Eeckhout, 2000). The balance of payment support was conditional upon the recipients' promising to make policy adjustments, a practice often known as 'conditionality'. The World Bank's programme lending with policy reform conditions that were economy wide were defined as Structural Adjustment Lending (SAL). Later on policy reform conditions were applied at sectoral levels giving rise to Sectoral Adjustment Lending (SECAL), leading to a shift from SALs to SECALs during the mid-1980s. It should be noted here that even before the 1980s IMF had used conditional lending but they were of a much-limited nature (Killick et al., 1998). During the 1980s IMF itself joined with the World Bank to give aid for the first time through its Enhanced Structural Adjustment Facility (ESAF) (Mosley and Eeckhout, 2000).

The causes of the shift from mainly non-conditional project aid to conditional Adjustment Lending are a matter of debate, yet many authors (e.g Allan and Thomas, 2000, Mosley, et. al 1991, Kahler 1990 and Cornia, 1987) agreed that two factors played an important role for this shift. That is, the 'oil crises' of the 1970s (1973 and 1979) and the subsequent 'debt crisis' was one of the main reasons for the increased use of policy-

based lending. At the same time they agree that the rise of 'neo-liberalism' in the some of the major donor countries gave more voice to policy based lending.

3.1.1 The early history of 'conditionality' and policy-based lending

Policy-based program lending was of minor significance until the 1980s. Some authors (e.g. Islam, 1981; Mosley and Eckhout, 2000 and Killick et al, 1998) pointed out that 'conditionality' in aid is not a new concept for international development agencies. For, example, Falaand (1981) using the case study of Bangladesh argued that project aid has not been lacking in 'conditionality'. According to him the presumption that project aid provides a limited involvement by donors in the discussion of domestic policies and institutions is not true. Likewise Islam (1981: 66) argued that most donors from the West were extensively involved in the design of projects, including issues relating to import control, foreign trade and exchange policies, domestic marketing systems and the distribution of imports. In addition there were conditions concerned with project management such as those requiring appointing foreign consultants and contractors.

The early 1980s saw the rise in policy-based programme from the World Bank, IMF and other donors. In relation to the policy-based program lending Mosley et al. (1991) and Mosley and Eeckhout (2000) argued that the while the global economic events helped to accelerate the space of Structural Adjustment lending (SAL), the use of policy-based lending by World Bank started before these global events. Mosley et al. (1991) linked the SALs to the failed attempts by the US to get India to accept structural reforms in the 1960s. The following provides a summary of the incidence (as provided in Mosley et al 1991: 28).

Between 1963-4, India received a large amount of aid for balance of payments support from Aid-India Consortium. During this time the donors of Aid-India Consortium, including the World Bank mission strongly advised India to bring about major economic policy changes. Though Indian government initially opposed it, in 1965-6 they brought about the required policy changes including the devaluation of the rupee. But this led to unsatisfactory result leading to the halting of the process. Even though the process was halted there was some 'specific threads of continuity' between the Indian incidence and the later history of policy based lending. That is, programme lending for balance of

payments support for India, Pakistan and Bangladesh continued throughout the 1970s. While this programme lending was not linked with policy conditions, the absence of it was regarded as unfavourable for development.

3.1.2 The 'debt crises' in developing countries

The series of events that led to the 'debt crisis' can be summarized as follows:

- a. Following the first 'oil crisis' of 1973, both developing countries and developed countries experienced gradual deceleration of growth. With regard to real GDP per capita (taking in to account population growth), developing countries did more poorly than developed countries.
- b. From 1976 onwards the commodity prices for exports of third world countries continued to decline.
- c. The large profits made by oil-producing countries were deposited in private banks of the developed countries, which were lent to the developing countries who were much in need of the capital.
- d. With the second 'oil crisis' of 1979 the commercial banks' lending to developing countries decreased dramatically.
- e. As a result of the preceding events, by the end of 1970s a large number of countries in Latin America and Africa had incurred huge debts without any prospect of repaying it – the 'debt crisis'.

(Cornia, 1987, pp 12-16)

Table 3.1 Debt Indicators

Countries	Total Debt (US billions) 80-82	Debt/GNP Percentage 80-82	Total Debt (US billions) 86-88	Debt/GNP Percentage 86-88	Arrears (US millions)
Argentina	35.5	65.3	56.4	69.8	\$988
Brazil	81	32.8	116.8	37	1142
Chile	15	57.3	20.7	120.7	0
Mexico	73.9	38.4	103.9	173.7	0
Korea	33.3	50.1	41.5	33.0	0
Thailand	10.4	30.7	19.9	41.8	0
Philippines	20.9	55.4	29.3	84.7	78
Ghana	1.4	33.0	3.0	57.6	8
Nigeria	11.3	11.9	6.2	320.5	640

(Adapted from Stallings, 1992 Table 1.3)

3.1.3 Rise of 'free-market' ideology

The rise of 'free-market' ideology in the developed Western countries is often referred to as 'neo-liberalism' (Schuurman, 1993, Brohman, 1995 and Rapley, 1997), 'counter-revolution' (Toye, 1997) or 'neo-conservatism' (Williamson, 1993). These theories came in a variety of forms, yet they all shared one common theme. That is they were in favour of 'free-market' mechanism and were wary of government interventions in the functioning of the markets. The economists advocating this view argued a strong case for free trade, privatisation and limiting the role of the state in the process of economic development. With the rising to power of conservative government in United States and United Kingdom the free-market ideologies entered political circles of these countries.

The result of the rise in popularity of the free-market ideology and the rise to power of governments sharing this ideology represented a shift in thinking about the development of poor countries. In this period the majority of developing countries lost their power over their economic destiny as their foreign debts soared. Soon international

development agencies such as the World Bank and IMF adopted this ideology (Mihevc, 1995). Major donors such as United States and United Kingdom working together with World Bank and IMF called on developing countries to free-market policies as a condition for new loans. The basic 'free-market' ideas underlying the changes suggested for third world development was known as the 'Washington Consensus'.

3.1.4 The 'Washington Consensus' and the spread of Adjustment Lending

From the late 1970s official development aid and international development policies were increasingly shaped by the development ideology, which (later) came to be known as the 'Washington Consensus'. Although it was not until the late 1980s that the term 'Washington Consensus' was coined, this has been the dominant approach to development practice from the beginning of the 1980s. The 'Washington Consensus' was termed by John Williamson (1993) who used it to refer to components of free-market ideology underlying the model of development promoted by the powerful western governments and the international development agencies. It was referred to as 'Washington Consensus' as the international institutes in Washington including the World Bank, IMF and the US Treasury Department shared this view (Williamson, 1993).

In broad terms the consensus recommended that governments of less developed countries should:

1. Take measures to reduce budget deficits
 - Reduce public expenditure (e.g. cutting subsidies)
 - Increase export by making them more competitive by adjusting foreign exchange rates
 2. Take measures to open up foreign and domestic markets
 - Liberalize trade by removing barriers such as tariffs
 - Abolish barriers to foreign firms
 - Abolish regulations that impede the entry of new firms or restrict completion.
 3. Privatised state enterprise
 4. Bringing about tax reforms and improving property rights
- (Williamson, 1993)

The development ideology for debt management outlined by the 'Washington Consensus' was propagated through Stabilising programs of IMF and the SALs of the World Bank. The literature distinguished between these policies. Stabilization measures were those aimed at reducing balance of payments and stability in the short term while structural adjustment addressed medium term adjustments aimed at changing the whole structure of the economy to encourage greater efficiency in resource allocation and investments. Yet in practice the distinction between the two was not so obvious. This is because in practice adjustment programmes were not implemented unless IMF stabilization programs were in place (Lipton and Ahmed, 1997). This practice of making the aid from one development agency conditional on the compliance of conditionality from another agency is known as 'cross-conditionality'. Bilateral agencies also extensively used cross-conditionality, often linking their programme aid to the World Bank and IMF conditionality (Killick et al., 1998: 9).

The aim of the adjustment policies was to expand the supply of tradable goods, increasing exports and import substitutes (Cornia, 1987). Put simply, the aim of these policies were to make the third world countries repay their debts by producing more for exporting and reduce government spending. In this sense it involved measures such as

- Liberating foreign trade and investments - this included measures such as encouraging foreign investments by removal of tariffs and subsidies of locally produced goods
- Devaluing their currency as to encourage more exports
- Producing more crops for export
- Reduction of government spending (austerity measures) which included less spending on health, education and social services.

As a result of the economic difficulties of the 1980s a large number of developing countries undertook stabilization and adjustment programmes, most with the assistance of IMF and World Bank, and others by their own initiative (Cornia, 1987,). Table (3.2) shows the rapid growth in policy-based lending adjustment lending by the World Bank since 1980s.

Table 3.2 Number of Adjustment Lending, 1980-1991 (average new credits and commitments per annum)

Year(s)	Number of SALs
1980-2	7
1983-5	17
1986-8	28
1989-91	35

(Adapted from Killick et al, 1998 Table 1.2)

The history of SAL can be divided into three phases. The first two years (1980-1982) was marked by a slow start, reflecting the uncertainty by both World Bank and developing countries. The year 1983 was marked by an increase in confidence (see table), mostly due to the perceived success in Turkey (Mosley et al., 1991). Since then the design has been changed, new conditions added. Since 1985 structural adjustments loans have been overtaken by the sectoral adjustment loans (SECAL). This became the 'vehicle' for majority of World Bank's 'structural adjustment' lending (Mosley, et al, 1991).

In addition to the number of adjustment lending, the number of policy stipulations per credit were also increasing. Some programmes had up to 95 conditions attached to it. (See Tables 3.3 and 3.4)

Table 3.3 Average number of policy conditions per World Bank adjustment loan

Type of conditions	1980-8	1989-91
Preconditions	9	18
Legal requirements	12	17
Other policy commitments	18	21
Total	39	56

(Source: Killick et al, 1998, Table 1.3)

Table 3.4 Implementation of Conditionality 1980-8: percentage of conditions implemented on all SALs and SECALs at the end of loan period

Turkey	95
Thailand	70
Jamaica	63
Philippines	62
Ghana	58

(Mosley at el. 1991a Table 5.2)

3.2 Policy-based adjustment lending and the poor

A survey of literature on policy-based lending shows two different kinds of studies. Firstly, there are those studies that evaluated the effects of policy-based lending in recipient countries, especially the poor within these countries. Secondly, there are studies evaluating the effectiveness of policy based lending, both in terms of its programme effects (e.g economic growth, capital formations, inflation) and the effectiveness of policy-based lending in bringing about the policy changes. This section provides a discussion of the socio-economic impacts of adjustment lending on the poor in recipient countries. In addition, it provides a discussion of the programme effects of adjustment lending and its effectiveness in improving macroeconomic performance in poor countries. The section draws heavily from the work of Cornia et al. (1987), Mosley at el., (1991), Killick (1995) and Killick et al., (1998). The effectiveness of policy based lending in terms of improving the macroeconomic performance and inducing policy change in developing countries will also be considered later in the chapter.

3.2.1 The economic and social cost of Adjustments

During the latter part of 1980s, social and economic impacts of Structural Adjustments and stabilization theory became one of the most important issues in research. What is more relevant to this study is its impact on the poor in the society. For many observers of official development aid and third world development the 1980s was the 'Lost Decade' for developing countries and others claimed that the decade was marked by reversals of economic and social development in many parts of the third world. Many of them believed that up to the 1970s there was some degree of human development in all parts

of the world, which cannot be said so for the decade that followed (Allen and Thomas, 2000:300)

A study by UNICEF (Cornia et. al., 1987) '*Adjustment with a Human Face*' was the first major study to bring the negative economic and social effects of adjustment to international attentions. This study was based on research (conducted in 1986) on the impact of structural adjustment in ten different developing countries. Although the main focus of the study was issues of child welfare in the early part of 1980s it showed many negative social impacts of structural adjustment on the welfare of the poor in the developing countries. In the light of these negative impacts UNICEF called on World Bank to bring about changes in the form of positive actions towards the poor in their adjustment programs.

3.2.2 Summary of Findings of UNICEF, study, 1987

The UNICEF study was the combined result of studies in various aspects of development, especially social development in ten countries. The ten countries were Botswana, Brazil, Chile, Ghana, Jamaica, Peru, Philippines, South Korea, Sri Lanka, and Zimbabwe. The cumulative result of the study showed that these countries were experiencing:

1. Decrease in overall economic growth
2. Increase in income distribution and absolute poverty levels
3. Decrease in government spending for social and welfare such as health and education
4. As a result of (3) changes in social indicators such as increased in child mortality, decreased in health stratus, increased in malnutrition and decreasing educational standards.

3.2.2.1 The impact of economic decline on the poor

The real GDP per capital of all countries has declined from 1976. While the economies of the developed world have showed remarkable recovery since 1982 the developing countries showed no signs of improvement till 1983. Even though there were some improvements after 1983, it was very slow to come (Cornia, 1987). From the case

studies with the exception of Sri Lanka, all the countries in the sample experienced recession. It was exceptionally high in Ghana with an annual average GDP of -6.7%. The recession had other associated negative impacts such as high unemployment rates. Unemployment rose, especially in countries experiencing decreasing GDP. It was exceptionally high in Jamaica with 29.8 % in 1980.

At the same time in the absence of any government intervention to increase equality income distribution, absolute poverty was increasing in most of the developing countries. Absolute poverty increased in six of the countries (situation was unclear for three). For example in Ghana the proportion of rural poor increased from 60-65% in 1980 to 70-75% by 1982. The only country that experienced reduction of absolute poverty was South Korea.

3.2.2.2 The impact of government expenditure on the poor

Adjustment policies frequently required the governments to cutback government spending. According to Pinstrup-Andersen et al, (1987), between 1980 and 1984, government expenditure per capita decreased in half of the developing countries and the greater proportion of decline was from those with adjustment policies. The result of declining economic growth and cuts in government expenditure was deterioration of basic services. During this period many countries in Africa, Latin America and Middle East experienced reductions in government spending on health and education.

Table 3.5 Annual Percentage change in per capita expenditure on health and education 1973-79 and 1978-83 (in constant prices)

Regions	No: of countries in the sample	1973-79	1979-83
Africa	10	+3.5	-0.1
Latin America	14	+4.5	+2.3
Middle East	2	+11.7	-7.3
South and SE Asia	10	+10	+7.2

(Adapted from Pinstrup-Andersen et al., 1987, Table 3.1)

The negative social impacts of these cuts in public expenditure were evident from the result of the ten case studies. For example, the results of the ten case studies showed that in most of the countries government expenditure per capita in the social sector had declined (Brazil, Chile, Peru, Philippines, Ghana, Jamaica). Table 3.6 shows some of the negative social impacts experience by these countries between 1979 and 1985.

Table 3.6 Social indicators of selected countries: basic period (1979-1984)

Country	Intake or availability of food	Infant mortality rates	Disease prevalence	Educational Attainment
Botswana	Positive	Positive	-	-
Ghana	Negative	Negative	Negative	Negative
Brazil	Negative	Negative	-	Negative
Chile	-	Negative	Negative	-
South Korea	Negative	Negative	-	-

(Adapted from Cornia, 1987 from tables 1.7 and 1.8)

In the majority of the countries surveyed, intake or availability of food decreased leading to increase in malnutrition. Access to or use of health services decline in the majority of cases. This led to:

- a. Closure of health facilities for budget reasons (Jamaica)
- b. Reduced rates of immunization (Brazil)
- c. Growing health costs in both public and private medical care
- d. Decrease in child survival and Welfare (except in Sri Lanka, Botswana, and South Korea, infant mortality rates increased)

In all the countries where data was available educational attainment decreased. This was seen as:

- e. Decline in literacy (Sri Lanka)
- f. Increasing school drop-out rates (Philippines)
- g. Increasing school failure rates (Ghana, Peru, and Brazil)

3.2.3 The case for 'Structural Adjustment with a Human Face'

The preceding finding from the UNICEF study showed that the period from late 1970s to early 1980s was marked by declining economic growth, increase in inequality and decline in government and household spending. The result of this was a marked reversal of social indicators such as health, nutrition and education, especially for the bottom 40% of the populations.

Using the empirical evidence from the case studies, Cornia (et al. 1987) argued for changes in the design of the structural adjustment lending. They argued that the austerity measures were harming the poorer and poorest in the society and that the cuts were more threatening to those who were already poor. They also argued that SAL posed the greatest threat to the most 'vulnerable groups' within the poor, namely women and children.

These authors did not argue for a complete halt of the structural adjustment, rather they agreed that reform was needed. However, they called for urgent attention to the need to protect the poorest and the most vulnerable, during the implementation of the structural adjustment programmes. They called for specific compensatory programmes targeted to improve the economic and social conditions of the poor. Botswana was highlighted in this argument for compensatory programs (Quinn et al. 1987). The case study of Botswana showed that, in spite of a severe draught the social indicators such as malnutrition had been controlled. According to Quinn (et al. 1987) the positive social impact in Botswana reflected the outcomes of compensatory programs towards the poor.

3.2.4 Mosley et al. 1991

Since the publication of the UNICEF study, other studies on effects of adjustment programmes have highlighted the negative results on the poor in recipient countries. Mosley et al. (1991) undertook a study of the World Banks' structural adjustment and sectoral adjustment programmes. Their findings published (in two volumes) as *'Aid and Power: The World Bank and Policy-based Lending'* highlighted the negative effect of policy-based lending.

According to Mosley et al. (1991) adjustment lending had many hidden benefits, of which the most important was its impact on public sector development spending. They argued that during the adjustment process of 1980s, both the concern for the distributional effects of the past decade and the more ancient wisdom of the importance of investment in human and material capital had been lost by the pressure to 'get the macroeconomic balances right first' (Mosley, et al., 1991:309). Like the UNICEF study, they too argued that one of the major (negative) impacts of adjustment lending has been the squeezing out of public spending for development. In addition, they pointed out that the negative impact of adjustment was greater for the poorer countries. For example, they argued that World Bank adjustment programmes were more appropriate for less-poorer countries such as Thailand and Turkey than for poorer countries such as Malawi.

The second volume of *'Aid and Power: the World Bank and Policy Based Lending'* (Mosley, et al.) was devoted to case studies of different countries, which had undertaken adjustment programs with World Bank. The case study of Malawi (Harrigan, 1991: 201-266) is an example how conditionality conflicted with government World Bank own policies that have been target for the poor.

3.2.4.1 Conditionality and the poor: the case of Malawi (Harrigan, 1991: 201)

One of the first and major areas of reform under the World Bank's SALs to Malawi was the agricultural sector. World Bank's policies for Malawi exclusively focused on increasing export crop production. One of the conditions of the first SAL to Malawi was smallholder crop pricing. While these pricing policies resulted in doubling of maize sales to the State Marketing Corporation and filling of grain reserve, it was achieved at the cost of halving the sales of smallholder export crops such as tobacco and cotton. In the second SAL new conditions were added on the form of fertilizer subsidy removal. As a result of the removal of input subsidy the fertilizer prices of escalated. In the period between 1983 and 1984 the average price of three main types of fertilizers used by small holders increased by 87% percent.

3.2.5 The poverty effects of adjustment lending: a summary

More recently Killick (1995) conducted a review of poverty effects of adjustment lending and illustrated the likely effects of common adjustment measures on the welfare of the poor, in a 'typical' developing country. According to Killick (1995) the major weakness of adjustment lending for the poor is that it is not designed to maximize the profits or minimize costs for the poor. He argued that living standards of the poor could be eroded by measures such as devaluation, deregulation of prices and reductions in government subsidies for food and other items, which raise the prices of consumer goods and services. Other threats for the poor include the job loss both in the public sector (due to reduction of civil service and privatisation of public enterprises) and private sector (due to the reduced protection for local industries) (Killick, 1995). Killick's illustration of the likely effects of adjustment measures more or less summarized some of the major criticism of early adjustment programmes and hence his illustration is reproduced here.

Table 3.7 Potential impacts of selected adjustment measure on various poverty groups

Adjustment Measures	Urban Poor		Small holders		Rural poor	
	Working poor	Un-employed	Cash crop	Food exporter	Food importer	Landless working poor
Devaluation	N	P	P	?	?	P
Other export promotion	N	P	P			P
Import Liberalization	N	P	P	?	P	?
Government Food subsidy reductions	N	N	N	P	N	N
Civil service retrenchment	N					
Cuts in social services	N	N	N	N	N	N
Increased indirect taxes	N	N	N	N	N	N
Const recovery measures	N	N	N	N	N	N
Public enterprise reform/privatisation	N	P	P	P		
Wage freeze	N	P		N		?
Credit squeeze	N	?				

(Source: Killick, 1995)

N = substantial and negative P = substantial and positive

? = Potentially substantial but sign indeterminate

Blank entries indicate no substantial effect

Killick (1995) drew a number of generalisations from this table. Firstly, it showed that the effects are liable to vary across different groups of poor. For example, in the case of financial liberalisation the urban working poor may be harmed due to closure of local import-substituting industries, which can no longer compete, while the urban non-working poor may benefit through improved availability of imported supplies. Secondly the table illustrated that the burden of adjustment are more for the urban poor, especially the working poor than for rural poor.

3.3 Social safety-nets: Compensating the poor for the negative impacts of adjustments

As can be seen by the discussion of the effectiveness of policy-based adjustment lending one of the most important issues that came out of research on first round adjustment lending was that these programmes had negative impacts on the poor in the short and medium term. Using the evidence from their landmark study UNICEF (1987) brought their concerns to the attention of development agencies, particularly the World Bank and argued for changes in adjustment programmes. According to Jolly (1991) in response to this the World Bank recommended not to “confuse the malady with the remedy”. In other words, according to the World Bank most of the negative impacts on the poor were mainly due to the economic crisis and inadequate adjustment rather than the impact of adjustment programmes itself. According to Jolly (1991) UNICEF somewhat agreed with this notion in principle. The UNICEF position was that it was technically impossible to distinguish which part of the social deterioration was the consequence of inadequate adjustment, economic deterioration, and structural relationships underlying poverty or adjustment programmes (Jolly, 1991). The main argument of UNICEF was that whatever the causes, poverty among the vulnerable groups should be given priority. Hence, UNICEF pressed for poverty reduction incorporated into both the objectives and contents of adjustment programmes (Jolly, 1991).

By early 1985 World Bank and IMF began to show its concern over the negative effects of structural adjustments and accepted the need for changes in development practice. In

1987 the World Bank's Operational Guidelines for Adjustment lending were amended to include 'Social Dimension of Adjustments'. It was suggested that the state should intervene in the short term and use aid to target the affected (Thomas, 2000). These came in the form of Social Funds (SFs) and Social Action Programmes (SAPs). These social programmes later (early 1990) evolved into Social Investment Funds (SIFs) (*see table 3.8*)

Table 3.8 Social Safety net programmes

Social Funds/Emergency Social Funds (SFs/ESFs)

These intermediary institutions intended to disburse funds to implementing organizations (e.g. local public and private local organizations and NGOs) for social protection programmes and other objectives. They are multi-sectoral and typically involve employment generation, infrastructure development and social service provisions. They are intended to be demand-driven (that is funds released on the basis of request from recipient countries) and are administered by autonomous or semi-autonomous bodies created specifically for this purpose.

Social Action Programmes (SAPs)

Social Action Programmes is a general term of multi-sectoral funding programmes intended to meet social protection and other objectives. They are not predominantly demand-driven and often tend to be pre-designed social actions plans like a regular project. Social Action Programmes are often administered jointly by existing line ministries.

Social Investment Funds (SIFs)

Social Investment funds are also intermediary institutions intended to disburse funds to implementing agencies. Unlike the former two, these funds are oriented towards intermediate and long-term goals of poverty alleviation. However, like Social Funds they are multi-sectoral and demand driven and administered by autonomous or semi-autonomous bodies specifically created for this purpose.

Adapted from Reddy (2000)

Most of the social programmes were funded by a number of international development agencies. The first large-scale social programme to compensate for the cost of social adjustment was Bolivia's ESF, which operated in that country from 1986 to 1990. This ESF was almost entirely financed by the World Bank and perceived to be highly successful. Since then SFs have been established in many other countries in the regions (Reddy, 2000 and Stahl, 1996). In Latin America the World Bank and the Inter-American Bank had played up a major role in setting up SFs. The first SAP was Ghana's PAMSCAD (Programme of Actions to Mitigate the Social Costs of Adjustments) in 1988, as a direct response to the perceived negative effects of Ghana's adjustment programme which began in 1983. UNICEF played an important role in creating this Social Action Programme. Although this programme was not widely considered as successful, this too has been widely replicated, especially in Africa. At times Social Funds have been put in place before SALs as a means of decreasing domestic opposition and gaining support for adjustment programmes (e.g. Bolivia and other socialist countries) (Thomas 2000, 63). Many SFs/SAPs are targeted at urban areas, partly as a result of the perception that the negative impacts of adjustments were more severely felt in urban areas (Subbarao, et al., 1995).

In designing programmes to compensate for the adverse effects of adjustment measures the World Bank differentiated between two types of poor people (cited in Jolly, 1991: 1858)

- The new poor – those who have been pushed into poverty by cuts in public services and others who have trouble finding employment because of the contraction in the public sector.
- The chronic poor – those who were poor before adjustments but may become poorer because of adjustment measures.

The programmes designed for the newly poor in 30 SALs undertaken during 1986-89 included severance payments for dismissed workers until they can find jobs, retraining for retrenched workers, provision of credit for retrenched workers and resettlement of retrenched workers (Ribe and Carvalho, 1990 cited in Jolly, 1991). In additions public work schemes, nutritional support schemes for children and pregnant women were designed for both the newly unemployed and the chronically poor. At the same time social expenditure reforms were aim at protecting the poor during adjustments (21

projects) and targeted food subsidies were aimed at protecting the poor while subsidies were withdrawn (Jolly, 1991: 1858).

Many of these programmes had several projects introduced under the same umbrella – ‘protecting the poor from the short-term effects of adjustments’. For example, in Ghana the PAMSCAD was the joint effort of the government, the World Bank and the UNICEF. Under the PAMSCAD US\$83 million was committed by World Bank to be spent over two year on 23 projects (with an estimated cost of US\$84 million) in five areas of

- Education
- Employment generation
- Community initiatives
- Basic Needs of vulnerable groups
- Actions to help retrenched workers

(Thomas, 2000: 65)

The overall impacts of these funds on the poor varied across countries. In general three (interrelated) observations can be made. Firstly, SFs and SAPs (like the IRDPs of 1970s) benefited the poor, yet not the poorest groups in recipient countries. Secondly, the activities from these funds were for promoting short-term relief while neglecting activities that would have more long-term effects (*see table 3.9*). Thirdly, there are serious deficiencies (from the perspectives of the poor) when aid to the poor is only for ‘compensating the poor’ for adjustment programmes.

Table 3.9 Social Funds

<p>ESF – Bolivia</p> <p>Bolivia's ESF has been recognised for its demand-based approach, transparency and efficiency of operations achieved largely outside the government bureaucracy. It benefited more than one million poor people through its projects infrastructure. The projects under this ESF included building schools and health posts, school lunch programmes and job creating activities. Yet even in Bolivia the poorest groups (especially the women) and poor regions benefited least from the Fund activities.</p> <p>Fund for Social Investment (FIS) – Bolivia</p> <p>Targeted toward vulnerable groups such as pregnant women and children under five. Despite high achievements it had trouble reaching the poorest, with the poor municipalities receiving disproportionately low allocations</p> <p>PAMSCAD – Ghana</p> <p>Two thirds of the Funds were spent in urban while the rural North (where the majority of the poor lived) received only three percent of the funds.</p> <p style="text-align: right;">(Source: Subbaroa et al. 2002)</p>
<p>Social Investment Fund (FHIS) – Honduras</p> <p>This Fund was created by the UNDP in 1990 to alleviate the social costs of adjustments programme implemented the same year. Of the 5, 494 projects funded between 1990 and 1994, 70% were short-term infrastructure projects, 19% consisted of social assistance programmes while productive projects only accounted for 7% of total spending. It is doubtful whether the FHIS benefited the most vulnerable groups as only 10% of the approved projects in Honduras were located in the six poorest departments of the country, while nearly 58% were concentrated in the wealthiest five departments.</p> <p style="text-align: right;">(Source: Stahl, 1996: 33-35)</p>

Jolly (1991) brought all three arguments together in his critique of World Bank's measures to deal social costs of adjustment and hence summarizes the most common

criticisms of these measures (ironically similar programmes were funded by UN agencies, as in the above example from Stahl, 1996).

Jolly (1991) suggested that the “new poor” measures took a large proportion of funding but failed to reach the majority of poor while the “chronic poor” measures did not reach all the adversely affected poor. That is, most employment and nutrition schemes only reach a subset of those adversely affected and the rural poor received a disproportionately little from these measures. More importantly, Jolly (1991: 1860) suggested that they were partial in terms of aiming to compensate only for the adverse effects of adjustments. In addition (Jolly, 1991: 1869) pointed out that:

‘Neither the “new poor” nor the “chronic poor” measures are designed to reduce poverty as such – as opposed to offering the poor compensation for adjustment measures – irrespective of its cause’

In addition Jolly (1991) noted that neither the World Bank nor IMF has made any significant changes in the design of their policies as to choice of policies, choice of instruments or timing and sequencing of the aid programmes. For example, he pointed out that even in countries where the World Bank has financed and coordinated more general programmes, tackling a number of aspects the intentions were that they were created to be ‘add-ons’ to adjustment programmes rather than an integral part of these programmes. At the same time he pointed out that programmes such as PAMCAD implied that it’s possible to distinguish the social costs of the adjustment from the social cost of the economic difficulties and structural problems in the economy.

According to Jolly (1991), the main challenge is not how to add human concerns to otherwise unchanged strategies but to *incorporate* human priority needs into the strategies. In the beginning of the 1990s, the pendulum appeared to be swinging back once more (Jolly, 1991) as the need for greater attention to social and human concerns is more widely recognized by the development community.

3.3.1 Protecting the poor: social safety- nets and income transfers

By early 1990s the World Bank and other major development agencies has been moving away from the rhetoric and practice of just compensation the poor for negative impact of adjustment (through SFs and SAPs) towards protecting the poor through safety nets. For example, one whole chapter of the 1990 World Development Report was devoted to the issue of social safety nets. This report distinguished two different types of poor and different safety nets for them. According to the 1990 World Development Report (p. 90) social safety nets is a system of “income insurance to help the people through short-term stress and calamities”. The income insurance is aimed at those who are temporarily not able to participate in the productive system and obtain a minimum standard of living due to short-term stress. On the other hand safety nets for those who are not able to participate in the productive system at all (e.g the elderly and disabled) the system of income transfers were to be their social safety net. As opposed to the short-term and compensatory nature Social Funds and Social Action Programmes, social safety nets are more long-term measures aimed at protecting the poor regardless of the cause of poverty. Ironically most of these programmes are attempts to deal with the negative effects from donor’s past advice.

In response for this desire to move away from the short-term and compensatory nature of programmes the first Social Investment Fund (SIFs) was created in Bolivia in 1990. According to Reddy (2000) another reason for the interest in social safety nets were that they were seen as a vehicle for a new form of service delivery, which would bypass the existing bureaucracies and their limitations. For example the social service delivery is assigned to NGOs and private organizations.

Since then the SIF model has been widely replicated elsewhere. By 1996 at least forty-five social safety nets like Emergency Social Fund/Social Fund, Social Action Fund or Social investment Fund has been implemented (or planned) in Latin America, Africa and Asia (Reddy, 2000:28). It should be noted that this excluded any of the rapidly growing Southeast Asian countries, as social safety nets became an issue in this area only after the financial crisis of 1997.

3.4 Policy change in recipient countries

At the beginning Adjustment lending was perceived by the donors as a short-term operation to deal with macroeconomic crisis of early 1980s but most countries (except a few including South Korea, Thailand and Chile) did not achieve the adjustments within the perceived time frame. Some countries (e.g. India, Argentina and the entire group of countries in former communist block) did not commit themselves to reform till the beginning of the 1990s and other which began the adjustments in the early 1980s were still locked onto the programmes twenty years on (Mosley and Eeckhout, 2000) for a variety of reasons.

Firstly it is widely acknowledged now that nearly half of the first generation adjustment reforms were not implemented. For example, according to the most positive result on compliance (reported by the World Bank itself) '*Adjustment Lending: an Evaluation of Ten Years of Experience*' (World Bank, 1988 cited in Mosley, et al., 1991) at the completion of disbursements on the loans, about 60 percent of the agreed policy changes have been implemented fully. Other studies by independent authors found lower levels of compliance. For example, Mosley et al.'s (1991: 142) study of adjustment found that 54 percent of programme conditions were fully implemented in the nine countries, which they studied.

One of the major reasons for the slippage of first generations adjustment reforms was that recipient governments realised that they could get away by not implementing the reform and still could keep conditional programme (Mosley and Eeckhout, 2000). This points to donor failure to enforce conditionality. The World Bank's principal means of enforcing implementation was dividing the adjustment loans into tranches and it is agreed that the second will be disbursed if certain policy actions are carried out. Mosley et al (1991: 172) pointed out that they even when almost none of the second tranche conditions have been fulfilled all the money has been handed over.

The next evaluation by the World Bank (World Bank, 1998 cited in Killick, 1998) showed an even better record of implementation with 78 percent of all policy conditions were implemented during the loan period. Based on these figures it can be argued that

the World Bank adjustment lending is successful in terms of programme implementation.

On the other hand more recently Wood (1999) quotes much lesser levels of compliance. The following are some of the examples of Wood (1999: 5), which highlights problems with compliance and other difficulties involved in implementing the reforms.

- The OECD's 1997 report examining compliance in Sub-Saharan Africa found that only 10 countries had "good" compliance with conditionality while 25 countries had "poor" or "weak" compliance.
- The World Bank's Quality Assurance Group, in a review of the financial year' 93-95 adjustment portfolio showed that 45% of the programmes were having difficulties. The figure for Africa was as high as 60%.
- The IMF review (1997) found that three-quarters of their ESAF-funded adjustment programmes broke down and experienced lengthy delays.

Killick (1997) shared a similar view. He too argued that implementation of adjustment programmes are often weak. According to Killick (1997: 486) one of the symptoms of weak implementation is the high "mortality" or interruption rates. Some of the evidence presented by the author includes:

- The high rates of "mortality" of IMF ESAF programmes before their intended life (53% for 1980-93; 61% for 1991-93).
- World Bank data for 1989-90 to 1993-94 showed that only a quarter of their programmes proceeded according to plan and half of the programmes are seriously delayed or abandoned. The delays are mostly caused by non-implementation.

Based on the above discussion the general conclusion that could be drawn is that conditionality has not been an effective means of bringing about policy reform in poor countries. The difficulties of bringing about reform are reflected by the frequent delays or breakdown of adjustment programmes. More importantly the discussions showed that adjustment lending based on the ideology of "Washington Consensus" led to increasing levels of poverty in countries that had implemented the programmes prescribed by World Bank, IMF and the donor community. Increasing awareness of the hardship

bestowed on the poor in adjusting countries led to special projects for protecting the poor during adjustment. It did not lead to any significant changes the design of adjustment programmes.

3.5 Adjustments and conditionality in the 1990s

There are many reasons provided for the apparent lack of policy-based lending most attributes these failures to some aspects of policy-based lending. According to these arguments policy-based lending failed because:

- Conditionality was imposed involuntarily on the recipients
- Although adjustments were needed the programmes (of donors) were poorly designed and policies were ill chosen.
- The envisaged policy changes were not executed.

As would be shown by the following discussion most authors attributed the failure of conditionality to all the factors mentioned above.

3.5.1 Nature of conditionality

According to the official view of the development agencies policy-based lending is consensual. World Bank emphasizes the relations with borrowing governments as a joint consensus between them and the borrowers. In their view programs are designed by governments to meet their own needs and if they meet the criteria of the World Bank then they get support by them (cited in Kahler, 1992).

Many authors including Killick et al (1998), Mosley et al. (1991) and Wood (1999) do not agree that policy-based adjustment lending is based on mutually agreed conditions. These authors argued that the fact that 'policy change' is linked to the availability of aid shows that the conditions are not mutually agreed conditions. For example, Mosley et al. (1991) argued that if there was an unforced consensus on views about policy change between the donor and recipient, then policy-based lending which make policy change a formal condition of aid would become redundant.

Killick et al., (1998) shared a similar view. For example they asked: if the policy content of programme is indeed consensual what was the reason for the strict linking of implementation with credit releases? Killick et al. (1998) distinguished between 'pro forma', which are consensual and 'hard core' conditionality, which are involuntary. According to these authors almost all of the preconditions of the World Bank are 'hard core' conditionality. Hence, they argued that the existence of preconditions signalled an absence of consensus.

While showing that poor are often put at risk by adjustment policies, Killick (1995) argued commonly the negative effects of adjustments are exaggerated and the positive effects downplayed. He pointed out that devaluation measure and other export promotion are likely to create new employment. Other biases or exaggerations of the negative impacts identified by Killick (1995) include the tendency to attribute the effects of debt to adjustments and the belief that adjustments lead to particularly deep cuts in the social spending. With regard to the former (for example) he argued that the severe reduction in consumption and investment in Latin America was the *inevitable* result of the debt crisis, the government's decision to honour the debt and the adjustment policies. With regard to social spending, he argued that the empirical literature finds that social protection is one of last expenditure to be cut. According to Killick (1995: 312)

"It is not case that axe falls most heavily on the welfare services. However the protection is only relative: social spending is cut, only less so than certain other categories".

3.5.2 Conditionality and ownership

A World Bank discussion Paper '*Borrower ownership of Adjustment programs, and the Political Economy of reform,*' (Johnson and Wasty, 1993: 1-2) identified four dimensions of ownership of programmes, which are:

- Locus of programme initiation
- Intellectual conviction among the key-policy makers (or ministries)
- Expression of political will from the political leadership
- Efforts toward consensus building

While the concept of ownership can be linked to promotion of participation in academic literature, the concept of ownership can also be linked to conditionality. The link between conditionality and 'ownership' can be seen at two levels. Firstly it can be seen as the response to the general failure of conditionality and SALs to bring much economic growth. Secondly it can be seen as a response to the critiques of conditionality.

The failure of 'first generation' conditionality led World Bank and IMF to argue that the cause of this failure is poor economic environment in poor countries, which led to more pre-condition conditionality aid at reforming the macroeconomics of these countries. The pre-conditions based on 'good governance' called for more reform and a reorientation of government spending to social sector and away from military spending (Wood and Lockwood, 1999:5). Academic research on World Bank's adjustment lending (e.g Mosey et al. 1991) and IMF programmes (e.g Killick et al., 1998) showed that using conditionality to induce policy change is extremely difficult. While the developing countries accepted the conditions of IMF and World Bank in order to access money, it was becoming clear that policy change could not be forced on government.

This non-implementation of donor conditionality and the weak outcome of aid based on conditionality have been attributed to weak government ownership of strategies (Killick, 1998: 86). For example Johnson and Wasty's (1993:5), review of 82 programmes showed that there is a strong correlation between ownership and the satisfactory outcome of programmes. Among the four dimensions of ownership, they found that the extent of support shown by a country's political leadership was the most important dimension of ownership (Johnson and Watson, 1993: 23)

3.6 The demise of 'Washington Consensus' and the re-emergence of poverty reduction

The poverty reduction agenda was consolidated during the 1990s, especially during the second half of the decade. In the first part of the decade, stabilisation and adjustments programmes were still the dominant object of aid programs and retained most of the development strategy of the preceding decade. As the decade evolved the adjustment-

based lending of the 1980s came under heavy scrutiny that led to major changes in the second half of the decade (Thorbecke, 2000: 38). This section discusses the events that influenced World Bank's move away from the 'Washington Consensus' towards a more poverty focussed agenda and the reform of World Bank practice.

The rise of poverty reduction as the main focus of development can be traced back to criticism of the negative effects of World Banks adjustment lending on the poor. Many of the themes of the poverty reduction agenda as we know today were consolidated during the second half of the 1990s. According to Pender (2001), the early 1990s was a time of increasing sense of uncertainty (about its policy prescription) within the World Bank. Pender (2001) suggested that this crisis of confidence within the World Bank was heightened by a series of events, especially in the later part of the 1990s. They include:

- The continuing poor results of adjustments, especially in Africa
- The 1994 economic crisis in Mexico
- The East Asian financial crisis

3.6.1 The continuing poor results of adjustments, especially in Africa

Prior to the 1990s World Bank and IMF presented these negative effects as a short-term phenomena, which would correct itself once the structural adjustment takes roots. Initially, the failure of adjustment programmes was put down on individual countries' lack of commitment (by the World Bank), though it became clear that there was something wrong with the whole set up. Countries that undertook adjustment also received a considerable amount of external support, leading in some cases to quite dramatic increases in growth rates yet few of the success stories could be said to be sustainable or beyond reversal as many accumulated heavy multilateral debt in the process. Hence, after a decade of increasing disillusionment with the effectiveness of international aid in Africa, with few of its goals, notably poverty reduction it was no surprise that there is a serious re-examination structural adjustment programs (Kayizzi-Mugerwa, 1998).

3.6.2 Mexican and East Asian Financial crisis

In the second half of the 1990s two other events were to have a major impact on the development policies of the World Bank. In December 1994 Mexico, which was regarded as a model for successful adjustment found, itself in economic trouble and had to apply for emergency loans from the World Bank (Pender, 2001).

Prior to the onset of 1997 financial crisis in East Asia, their spectacular growth received international attention and led to interest (especially by World Bank) in identifying and explaining the sources of this rapid growth. In 1993 World Bank published their study of the economic growth of these countries, titled '*The East Asian Miracle*'. It was believed that the policies and strategies followed by the East Asian countries provided a broad model of development and it was argued that many of the elements of the miracle are potentially transferable to other developing countries. In brief the success elements were seen to be:

- Sound microeconomic foundation and political stability
- Reliance on markets and export orientation
- Selective government interventions
- High rates of investments in human capital, physical investments and acquisition of technology.

The financial crisis of Mexico and that of East Asia was an important setback for the World Bank adjustment lending and brought into question the wisdom of the 'Washington Consensus'. It brought into question the value of excessive trade, capital liberation and financial deregulation and triggered a re-examination of the role of government in protecting the economy from major external shock (Thorbecke, 2000)

More importantly the East Asian crisis brought about significant reversal in the record of human development achieved by the region in the recent years. For example, in Malaysia the poverty rate fell from 50% in 1970 to 15% in 1990 and similar improvements had occurred in Indonesia, Thailand and Republic of Korea. As a result of the crisis in Indonesia the incidence of poverty rose to about 24% by the end of 1998, which effectively returned the poverty levels of mid 1980s. The rapid increase in poverty within such a short period highlighted the important role governments can play (and

should play) in protecting the poor at times of crisis. These issues helped to focus the attention of the development community on poverty reduction and welfare of the poor as the main objective of development.

3.7 Summary

This chapter discussed the World Bank and IMF Adjustment Lending to poor countries. Adjustment Lending has its origin in the debt crisis of the late 1970s whereby the third world countries incurred large debts as a result of a series of 'oil crises' in the 1970s. By the end of the decade it became increasingly clear that the third world countries (which had borrowed from the developed countries) would be unable to repay their loans. Hence, Adjustment lending was born as a 'debt management strategy' by the World Bank and other donors, whereby the developing countries had to take certain economic reform in return for financial support of the balance payment problems of the debt ridden countries.

While the objective of Adjustments were to reduce budget deficits, open up markets and privatise state enterprises, Adjustment policies frequently required governments to cut their spending. From mid-1980s many researchers were pointing out that declining growth rates together with cutbacks in government spending was deteriorating social services in poor countries. At the same time they pointed out that the deterioration of basic social services was having the most profound effect on the poorest in these countries. Using this research the UNICEF and like-minded academics and partitioners argued for the reform of adjustment programmes to alleviate the negative impacts of Adjustment Programmes. The World Bank and IMF response was to suggest that these negative impacts were short-term and governments should to intervene in the short run and use aid to compensate for those who are negatively influenced by the Adjustment Lending. This came in the form of 'social safety-nets' to mitigate the negative impacts of adjustment.

The late 1980s and early 1990s showed more critiques of World Bank and IMF's Adjustment programmes pointing out adjustment lending or 'conditionality' was failing to bring about reform in many countries and even in countries that implemented the reforms did not experience growth or increase the conditions of the poor, especially in

Africa. At the same time the Mexican and Asian crisis in second half of the 1990s and the increase in poverty in these regions brought into question the value of economic reform and decreasing the size of the government and highlighted the importance of protecting the poor in developing countries.

Chapter 4: THE 'NEW POVERTY AGENDA'

4.1 Introduction

This section provides a summary of the major elements of the 'new poverty agenda'. Three different dimensions of the poverty reduction agenda are discussed here. Firstly, it discusses the International Development targets, which are the ultimate goals of development agreed by the international community. Secondly, it focuses on the specific strategies of the World Bank, which together forms the World Bank's poverty reduction agenda. Thirdly, the section looks at the poverty reduction focus of bilateral donors, starting with DAC (representing the northern donor community) followed by specific donors including, United Kingdom, Australia and New Zealand. The strategies of bilateral donors are considered insofar as their strategies are similarities to the World Banks' approach.

World Development Report of 1990 is often cited as the starting point of the re-emergence of poverty reduction (Hjerthom and White, 2000). At the same time Hjertholm and White (2000) argued that it was the work of UNICEF that initiated the poverty agenda and hence, this is an example of how the World Bank can "take over" activities even though the original initiative came from outside and they originally resisted it. Whether World Bank can be given the credit for initiating the move towards poverty reduction is an issue of debate, but without doubt the World Bank has become the leading agency in this new poverty reduction agenda and the main source of information about poverty used by most donors. Hence the World Development report of 1990 is a good starting point for this chapter.

4.2 World Development Reports: from 'poverty' to 'attacking poverty'

The World Development Reports (WDRs) published by the World Bank played a major role in fashioning the 'new poverty agenda' promoted by the Word Bank during the 1990s. It was one of the major source through which the World Bank disseminated their knowledge, understanding and policy prescriptions to general the public. At the same

time it was also a tool, which the World Bank used to gain legitimacy for their development policies and strategies. Hence the WDRs, especially the 1990 WDR that started the process and the 2000/2001 WDR, which culminated it, received wide coverage.

As was shown in the first chapter the definition of 'poverty' that was set out in the WDR of 1990 was very different to the definition of poverty set out in the WDR of 2000/2001. That is, while the 1990 WDR defined poverty as failing to reach a minimum standard of living the 2000/2001 WDR used a definition which goes beyond material needs. There are two contrasting views on the poverty agenda set out in these WDRs. According to the World Bank's view the WDRs show how their understanding and knowledge of poverty and its causes has deepened over the decade (Lustig and Stern, 2000). On the other hand a number of critics (e.g. Cammack, 1999; Burkett 1990) maintains that that development reports presented their past ideologies and practices of 'Washington Consensus' as new tools for poverty reduction. This section provides a review of the WDRs starting with the 1990 WDR and moving on to the 2000/2001 WDR. In doing so the major focus will be to review how the poverty agenda evolved and discuss the following questions: What is the link between the 'new poverty agenda' and past practices? Does the 'new poverty agenda' mean a break with past practices of 'Washington Consensus' or is it a remould of old strategies in a new package?

World Development Report, 1990 suggested a two-pronged (plus one more) approach

1. Promotion of labour-intensive growth so that the poor can get can benefit from the growth. According to this report the first step towards a sustainable approach to poverty reduction should be based on the promotion of labour- intensive growth as labour is the most abundant asset of the poor
2. Provision of the basic services such as primary health care, family planning, nutrition and primary education for the poor in order to increase the human assets of the poor.
3. The report also called for safety nets. It was stated that even if the two strategies were adopted many of the poor such as the sick and disabled would still be deprived from the benefits of growth. Hence, the report suggested that there should be safety nets for those who could not take the advantage of the preceding two policies.

The report also stressed the importance of development assistance for poverty reduction. It called the donor community to use the analysis of the report as a basis of poverty reduction. It was suggested that donors should cut down on military spending and use the resources freed for increasing development assistance, which should be used to support the poverty reduction efforts of recipient countries. The analysis of the report for poverty reduction suggested that the main recipients of aid should be those countries that have committed themselves to the two-part strategy for growth. Hence, this could be seen as the beginning of the argument for 'selective' aid giving based on policy environment and another form of conditionality.

The 1991 World Development Report describes a market friendly approach in which governments allow markets to function well and governments intervene only in areas where the market proves inadequate. This shows that even though that the World Bank has turned to poverty reduction the old neo-liberal agenda has not been completely abandoned. The market was given the most important position while the governments were to facilitate their smooth functioning. Governments were to:

- Provide a stable macroeconomic environment in order to inspire the confidence of the privates sector
- Create a competitive environment within which enterprise can flourish
- Integrate their economy into the global economy
- Invest in people to supplement markets where needs are unmet in health, education, nutrition and family planning

Within this system the state is to support market friendly policies and create a sound policy climate by providing effective legal, judicial and regulatory system and protect the environment.

In reappraising their spending priorities, implementing tax reform, reforming the financial sector, privatising state-owned enterprises and using charges to recover the costs of some state-provided services, governments can meet the goal of microeconomic efficiency and macroeconomic stability at the same time (p. 9)

The next three reports (1992, 1993 and 1994) were on development and environment, infrastructure for development and investing in health, respectively. These reports highlighted the importance of the environment and health for the development of the country. Keeping in line with the 1991 WDR these reports outlined the 'appropriate' role of the state in these areas according to the 'market-friendly approach' being promoted by the World Bank. The 1994 WDR on health was of particular importance to the poor. In line with state intervention in areas of 'market-failure' the recommendations were that governments finance public health and essential clinical services and to leave the coverage of the remaining clinical services to the private sector (World Bank, 1993: iii). From a poverty reduction point of view this is a much more pro-poor approach than full privatisation that was promoted through the first generations adjustment programmes.

Likewise the 1995 WDR 'Workers in an Integrating World' continued to promote the market friendly approach. It suggests governments should pursue a four-point programme based on:

- Pursuing market based growth paths.
- Taking advantage of the new opportunities in markets at international level.
- Constructing a labour policy that complement informal and rural labour markets.
- Designing the transition as rapid as possible without excessive damage to labour

The 'market friendly approach' promoted by the World Bank was largely based on the ability of some East Asian countries to achieve impressive growth during the 1980s and early 1990s. According to the World Bank's publication (1993) *'The East Asian Miracle: Economic Growth and Public Policy'* many ingredients went into the recipes of success in these countries (Hong Kong, Indonesia, Malaysia, Korea, Singapore, Taiwan and Thailand), nonetheless the market-oriented aspects of these eight countries can be recommended as a major part of the success. At the same time it was stated that East Asian economies were based on a combinations of sound development policies, tailored interventions and unusually rapid accumulations of physical and human capital.

The next WDR 'The State in a Changing World', the Bank's 1997 World Development Report, acknowledged that the state and its institutions can play an important role in stimulating growth in economy. The report stated that an effective state is vital for

building the rules and institutions that would allow markets to grow and work effectively by acting as 'partner, catalyst and facilitator' for development. The forward to the report by the World Bank president Wolfensohn stated that "the reform based on laissez fair type of prescription alone would lead a nation to a minimalist state, which would do neither any harm nor good". At the same time the importance of markets and the important role that the state should play in promoting market was stressed as shown by the following statement which summarizes the main message of this report: "Countries need markets to grow, but they need capable state institutions to grow markets" (WDR, 1997).

Hence, by late 1990s the World Bank was advocating for 'strong governments' (as opposed to the 'less government' promoted in the early 1990s) that were capable of facilitating the 'free-markets'. Many authors saw the 'market friendly approach' as essentially the promotion of self-interest of developed countries. For example, according to Cammack (1999: 13-14):

The World Development Reports from 1992 to 1994...presented the policies and policy approaches required to deliver and reproduce the environment, people and services that global capitalism requires, in ways which contribute most effectively to the smooth functioning and expansion of markets

Cammack (1999) argued that the promotion of the 'free-market' approach against any strong evidence on its poverty reduction effects, shows that the real goal of World Bank strategy is not poverty reduction but integrating the poor countries in to the 'global economic' system.

More importantly during this period Stiglitz (the Senior Vice President and Chief Economist of the World Bank from 1997 to 1999) was questioning the 'Washington Consensus' and calling for a move toward a 'Post-Washington Consensus'. By the late 1990s a series of crises in East Asia (beginning with Thailand in 1997) led to more questioning of the "Washington Consensus". While some authors used the crises to criticize the "Washington Consensus" others took advantage of the crises to suggest that the active state was the root cause of the problem (Stiglitz, 1998). Stiglitz (1998: 3) argued that "the heart of the current problems in most cases is not that governments have done too much but that it has done too little in some areas" and that "the current

crisis in East Asia is not a refutation of the East Asian miracle". Similarly, Stiglitz (1998) objected to financial liberation, arguing that the success of some East Asian countries due to their policies of directing credit to particular industries as opposed to allowing the market to determine the allocation of credits.

The next WDR (1998/1999) '*Knowledge for development*' focussed on education and development as well as poverty reduction. In 1990 the United Nations and the World Bank played a central role in bringing an international commitment to universalise primary education by 2000 (the target has been shifted to 2015 in IDTs). By 1999 the estimates showed that there was still some 125 million children not receiving any education and this report can be seen partly as response to this failure. Likewise the recent WDRs also stressed the role of market in education as well as the role of state where markets fail to deliver the services. For example the report stressed the importance of open economies in order to attract foreign companies, which were seen to play an important role in transferring knowledge in the global economy. According to the conclusion of the report (World 1998/1999: 156)

Recent development thinking has been based on the assumption that markets work well enough to ensure development and alleviate poverty. Our growing understanding of information constraints suggests that markets alone are often inadequate; societies also require policies and institutions to facilitate the acquisition, adoption, and dissemination of knowledge, and to mitigate information failures, especially as they affect the poor. This view implies an expanded mandate for public action.

For a brief period when Steiglitz was the Chief Economist different policies and advices began to emanate in relation to the market and the role of the state, particularly in the aftermath of the Asian crisis. Hence, during the late 1990s there was some indication that the World Bank maybe somewhat moving away from the 'Washington Consensus' to a 'Post-Washington Consensus' but soon Stiglitz was out of the World Bank. According to Stiglitz (1998) the 'Washington Consensus' took privatisations as an end in themselves rather than the means of achieving a more sustainable, equitable and democratic development. While supporting the 'Washington Consensus' to some extent he called for post-Washington Consensus that recognised a much broader goal and

broader instrument (Stiglitz, 1998: 30) According to Stiglitz (1998) the goals of development should be seen to increase living standards (including improved health and education) in addition to economic growth. At the same time he stressed that democracy, participation and equity should be ranked alongside the World Bank's previous goal of growth.

The 2000/2001 World Development Report is seen as the report that consolidates the World Bank's approach to poverty reduction into the next decade. When compared to the 1990 WDR the 2000/2001 WDR used a much broader definition of poverty, which is multidimensional in nature. Yet, both WDRs suggested similar strategies. The 2000/1 WDR too proposed a three strategy for poverty reduction where the former three pillars being supplanted by the three new prongs of opportunity, empowerment and security. The security and opportunity are descendants of 'social safely-nets' and 'investment in human capital of the poor' respectively, while the empowerment is a new addition.

Another issue that was dealt in both the 1990 WDR and 2000/2001 WDR is the issue of conditionality. While the 1990 WDR urged donors to use aid to persuade the recipient countries to adopt a more pro-poor conditionality the 2000/2001 WDR argued that conditionality fails to bring changes. It pointed out that recipients do not see conditional as binding but recipients are reluctant to stop aid when conditions are not met. Hence, in place of conditionality the WDR 2000/2001 (p. 196) urged donors to adopt 'selectively' (this issue will be discussed in more detail later in the chapter)

Table 4.1 The major pillars in 1990 WDR and 2000/2001 WDR

1990		2000/1	
Pillars	Associated policies	Pillars	Associated policies
Labour-intensity	Small-scale industry; special employment measures; promotion of green revolution in small-farm agriculture		
Investment in the human capital of the poor	Promotion of primary health and education, especially amongst females; micro finance	Opportunity	Micro finance, land reforms and other asset redistribution policies. Measure to reduce inequality; 'pro-poor' public expenditure patterns.
Social Safety nets	Food subsidies, social funds; support of community-based redistribution	Security	'Tailor made' social protection measures; measures to support asset diversifications; insurance; 'international public good' defences against economic crisis, e.g. financial regulation, conflict prevention
		Empowerment	Democratisation, decentralisation, measures to build 'social capital'

(Source: Mosley, 2001: 209)

4.2.1 2000/2001 WDR: Critical reviews

The 2000 World Development report has led to a number of critical reviews. The reason for this was that it was seen as the most important policy document that would guide the World Bank's lending activities in the next decade. In the Forward of the report the president of the World Bank Wolfensohn says, "This report seeks to expand the understanding of poverty and its causes and sets out to create a world free of poverty in all its dimensions". Given the position of the World Bank in international development, the conceptualisation of poverty in this report and the instruments for intervention identified by this report is likely to become a model for poverty reduction for other development agencies. The rest of this section discusses some of the critiques of the 2000/2001 WDR.

The 2000/2001 WDR attempted to break with the past by inviting collaboration. Prior to the publication the report was available on the web for comments (Hubbard 2001). Mosley (2001) in reviewing the 2000/2001 WDR (both the final publications and first draft published on the web) showed that some ideas were watered down in the final version. He compares a section on the timing of reforms in the draft (on the web) with the section from the final publication. According to the draft the economic crisis of the 1990s revealed the importance of creating the adequate institutions or 'social capital' before market reform are adopted. As opposed to this, the final publications stated that since if there is possibility of recurrence of financial crisis 'developing countries may wish to implement short-term safeguards to limit their exposure'. According to Mosley (2001) what the transparency has revealed is "that there is a deep division within it over the extent to which adherence to a neo-liberal ideology best serves the interest of the poor". Likewise Shepherd (2001) too points out that the neo-liberal paradigm is 'alive and well' (in the report), but also presents a series of challenges to this position in its analysis for development and poverty reduction. For example, the WDR provides a discussion of economic growth and inequality and the important role of state in protecting the vulnerable and providing security for the poor.

According to Shepherd (2001) the main contributions of the WDR was that it provided a basis for building international coalition against poverty. It helped in building a complex picture of poverty and highlighted the multi-dimensional nature of poverty There is a

long and useful discussion on the relationship between economic growth and inequality. Its contribution is the multi-dimensional approach to understanding poverty and it will be difficult to retreat from this point in the next decade. At the same time it emphasized the links between different aspects of poverty including health, education and social capital and raised the profile of these dimension, which have previously received little attention. It also recognized the diversity of poverty both in terms of geography and time and promoted the need for diverse strategies (Shepherd, 2001).

Shepherd (2001), while applauding the comprehensive definitions of poverty, points to the limitations of the World Bank in addressing the Comprehensive Agenda. For example he argues the Word Bank (being a Bank) would have trouble investing in activities, which does not generate economic returns (as opposed to social returns). Hence Shepherd (2001: 391) suggested that the Word Bank's role in the 'vulnerability and empowerment agenda – support for civil society, NGOs, social protection safety nets' is limited and that the UN agencies are better suited to lead in this area. Oyen (2000) questions if the World Bank have the necessary legitimacy to be major mover in poverty reduction. According to Oyen (2001) the World Bank being the main promoter of the Structural Adjustment Programmes (which has failed the poor) has led to wide spread belief that the World Bank is on the side of the non-poor rather than the poor. Given this history Oyen (2001) questions if the recipients would accept the World Bank in its new role of primary mover for poverty reduction.

Other critiques point out to important areas that have been neglected in the 2000/2001 report. According to Shepherd (2001) the problems of 'chronic' poverty and 'absolute' poverty, and international causes of poverty such international trade and constraint on the beneficial participations of the poor in it are under-emphasized in the WDR. The *UNDP Poverty Report (2000)* made the same observation and highlighted the importance of international trade for poverty reduction. They argued that even though debt is linked to poverty, trade policies are not. Yet one reason that poor countries cannot pay off their dept is that they cannot penetrate major export markets in industrial countries, which is partly due to the formidable walls of protections that remain (UNDP, 2000). The report also noted that while the rich countries protect their markets the poor countries are often asked to the open up their agricultural sectors (which threatens to undermine their food security and spread poverty). Hence, the report argued that if

international trade is to benefit the poor 'the international rules of the game must be made fairer' (UNDP Poverty Report, 2000).

Others (Maxwell, 2001; White, 2001 and Oyen, 2000) point out weakness in promoting equality and redistribution. Maxwell (2001) criticises the 2000/2001 WDR for promoting redistribution only matters as an instrument for faster growth and poverty reduction. According to Maxwell (2001) equality should be promoted for its social and psychological benefits. He suggested that the case for equality should be enshrined in the IDTs. Likewise White (2001) criticised the 2000/2001 WDR for not going far enough in exploring the policy options to achieve redistribution. As mentioned above, White (2001) argued that IDTs are unlikely to be met in many countries (especially in Africa) by just growth alone. Hence he suggests that redistribution should be at the heart of international development efforts. With regard to the issue of inequality Oyen (2001) raised the question: *'How much equality can be tolerated in the paradigm of economic growth?'*

Another important issue that was raised by many authors (Oxfam, 2000; Chambers, 2001; Oyen, 2001 and Nustad 2001) is lack of integration between theory, empirical evidence and policy prescriptions. Oyen (2000) argued that despite the multidimensional view the World Bank's analysis of poverty it is one sided. That is, it is repeatedly stated that economic growth reduced poverty while the fact that economic growth also creates poverty is underplayed (Oyen, 2000). For example, (Oyen, 2000) questions: what comes first in the World Bank poverty reduction agenda, economic growth or poverty reduction. Oxfam (2000) applauds the World Bank for its arguments for pro-poor redistribution in Chapter three. At the same time Oxfam (2000) believes that the World Bank had undermined the strength of its own arguments in earlier chapters by promoting the old style "Washington Consensus" economic models in Chapter four (the chapter which deals with economic growth). Chamber's (2001) suggested that a planned final chapter, which bring about the issues and policies together, is needed. According to Nustad (2000) this shortcoming reflects the constraints in the World Bank in terms of tools for intervention available to them.

Going back to the questions poised at the beginning of this section: Is the 'new poverty agenda' (outlined in the World Development Reports) a complete break with past

practices of 'Washington Consensus'? Or is it a remould of old strategies in a new package? The above discussions on the World Development reports and its critiques showed that the 'new poverty agenda' shares many similarities to past development practices. The discussions of this section has shown that through the last decade World Development Reports have adhered to a 'market friendly' approach in which macroeconomic reform such as financial liberations and privatisation is promoted as way to increase economic growth and poverty reduction. As the reviews of the World Development Report 2000/2001 highlighted, even though the reports provided a useful discussion on the multi-dimensional nature of poverty it shared the many weakness of past development practice. Some of the major points included giving too much emphasis to economic growth as a means of poverty reduction, failing to give due emphasis to equality and failing to provide an analysis of international causes of poverty such as terms of trade. That is during the course of the decade the development thinking on aid and development (and poverty reduction) has undergone some changes but by no means had made a complete break with past ideologies and practices.

4.3 How is aid to reduce poverty? : A critical review

Recently the development debate has once more taken up the issue of the 'aid-growth-poverty' relationship. This recent literature has contributed a lot towards the 'new poverty agenda'. A number of empirical studies conducted in late 1980s and 1990s argue that growth helps to reduce poverty and aid can and had contributed to increasing economic growth in poor countries.

This wealth of support is in most part issuing from the World Bank. For example recent empirical studies by Demery and Squire (1996) argued that changes in mean income consistently plays the main role in securing changes in poverty reduction. According to Ravallion (1997) the biggest problem facing the world's poor is lack of economic growth. Ravallion (1997) argued that growth reduces poverty and rises public spending (and increases human development) and policies that attempt to just raise human development may do so at the expense of growth. A related part of the 'aid-growth-poverty' is the issue of equity. Recent literature on growth and equity issuing from the World Bank is similar to the thinking in the 1970s (e.g Chenery, 1974). For example,

three World Bank economists (Bruno; Ravallion and Squire, 1996) argued that there is no inherent trade-off between growth and inequality.

These pro-growth policies have received varying levels of support from others in the development field. For example, Oxfam (1997) supported this view. They argue that, holding population and income distribution constant, economic growth will lead to reduction in absolute poverty. While Oxfam (1997) agreed that growth would lead to reduction in absolute poverty. At the same time Oxfam (1997) stressed the importance of equity. Pointing to the East Asian countries they argued that 'policies which are good for equity are good for economic growth, and good at converting growth into poverty reduction'. At the same time they point out that if inequality worsens at a rate that offsets economic growth, or if population growth rates are higher than economic growth rates, this will not lead to reduction in absolute poverty.

Some recent studies have also attempted to quantify the responsiveness of poverty to income growth by estimating the 'growth elasticity of poverty' (the percentage change in poverty due to 1 % change in per capita income). Dollar and Kraay (2000) after conducting research on data from eighty countries over four decades, argued that income of poor rises 'one-for-one with overall growth'. Hence, their conclusion (Dollar and Kraay, 2000: 27) was:

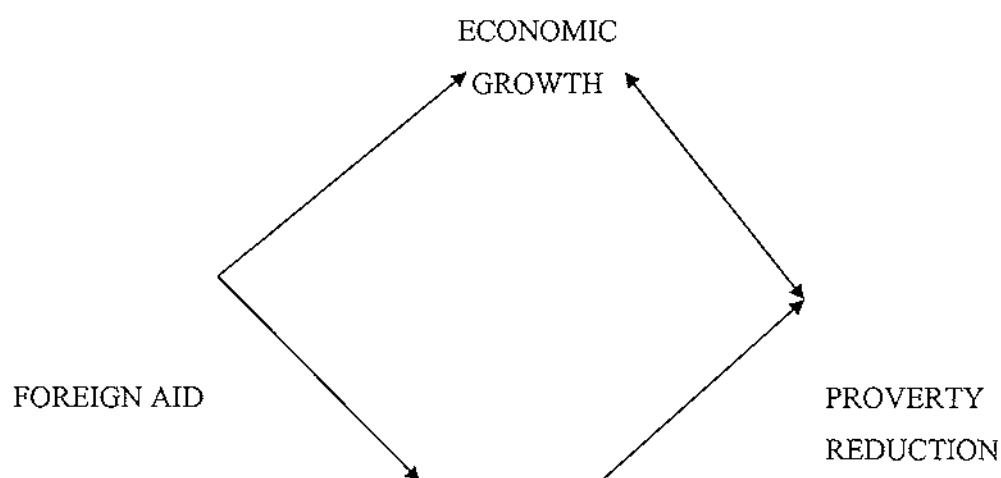
What we do learn is that growth generally does benefit the poor and that anyone who cares about the poor should favor the growth-enhancing policies of good rule of law, fiscal discipline, and openness to international trade.

Ravallion and Chen (1997) report even more favourable rates of 'growth elasticity of poverty'. Their research findings reported that 1 % increase in per capital income was associated with 3.12 % reduction in poverty. Their research also showed that growth was more responsive to those in extreme poverty. In other words, growth does not just help the poor; it helps the poorest of the poor more than those who are moderately poor.

On the other hand authors such as Gomane and Morrissey (2002) and Ranis, et al. (2000) pointed out that poverty is an obstacle to economic development or lower level of poverty can increase the growth possibilities. These authors pointed out that well-being

can also be improved through public spending on social services such as education and health (“pro-poor public spending”) (Gomanee and Morrissey, 2002) or investments in human development (Ranis et al., 2000). *Figure 4.1* shows a summary of potential linkages between aid and poverty reduction as presented by Gomanee and Morrissey (2002). Gomanee and Morrissey (2002) tested the hypothesis: direct measure that aimed at improving the non-income dimensions of poverty (eg. Education and health) is a potential route for poverty reduction. After conducting their research based on data from 57 countries over the period 1980 to 1998 they came to the conclusion that public social expenditure increased the positive effects of aid flows on poverty reduction. Hence, they argued that if development assistance is to be based on ‘selectivity’, it should be target on countries with good ‘pro-poor social policies’ (as opposed pro-poor growth policies).

Figure 4.1 Foreign aid and poverty reduction channels



(Source: Gomanee and Morrissey, 2002)

Ranis et al. (2000) explained the connection between economic growth and human development as forming two chains. On one hand, economic development provides the resources to sustain human development. On the other hand, improvements the labour force contribute to economic growth. According to Ranis et al, (2000), economic growth is necessary but not sufficient condition for poverty reduction. The findings from their research suggested that a focus on human development should be included from the beginning of any reform program. That is, countries that initially favoured economic

growth lapse into a 'vicious cycle' where poor human development leads to poor economic growth which in turn depressed human development. On the other hand those with good human development and (even) poor economic growth moved into a 'virtuous cycle' where good human development enhances growth, which in turn promotes human development (Ranis, et al, 2000). Hence, according to Ranis et al., (2000) the best strategy is balanced development but if a choice is necessary human development should be given priority,

In summary, this discussion on how aid reduces poverty revealed that there are two channels through which aid can help in the fight against poverty. That is, development assistance can contribute to poverty reduction indirectly through growth or alternatively through improving the welfare and living conditions of the poor (e.g. through public spending on health, education and safety nets). Recent literature, especially those from donors such as the World Bank and its associated authors argued that there is no inherent conflict between economic growth and equity and the most efficient approach to poverty reduction is through the 'pro-poor' growth channel. Other authors pointed out that growth is not the only channel through which poverty can be reduced. They pointed out that other channels such as investments in human development could be a more efficient and route to poverty reduction. However, there is a consensus that both growth and human development is needed for poverty reduction.

4.4 International Development Targets (IDTs)

4.4.1 IDTs: Building the Consensus at International Level

While the World Bank was building (and rebuilding) its poverty reduction strategies through its WDR, the poverty reduction agenda was also being shaped internationally. During the 1990s United Nations organised a series of international conferences addressing development issues, including:

- Conference on the Environment and Development, Rio 1992
- Conference on Population and Development, Cairo 1994
- Summit on Social Development, Copenhagen, 1995
- Conference on Women, Beijing 1995

Based on the discussions of these conferences, the International Development Targets (IDTs) were identified and signed by members of international community, including United Nations, World Bank, DAC and developing country governments.

Since the international community endorsed the International Development Targets, World Bank and DAC has been making attempts to widen the support for these targets and build up an international 'consensus' for poverty reduction. Table (4.2) shows some of the major events leading to the 'consensus on poverty reduction'.

Table 4.2 Building the Poverty reduction consensus

Copenhagen Declarations	1995	International community agrees to address key social issues
DAC publishes Strategy 21	1996	Strategy calls for a global effort to reach International Development Targets
World Bank/IMF Annual Meetings	1996	Approves the HIPC initiative for comprehensive debt relief
Cologne Summit	1999	G-8 declare support for deeper debt relief within a framework of poverty reduction
World Bank/IMF Annual Meetings	1999	Agreement to link debt relief to the establishment of a poverty reduction strategy for all countries receiving World Bank/IMF concessional assistance

(Source: World Bank, 2000b)

Based on the above discussions the main elements of the 'new poverty agenda' are:

1. The International Development Targets (IDTs)
2. The Comprehensive Development Framework (CDF) and Poverty Reduction Strategy Papers (PRSPs)
3. The World/IMF Heavily Indebted Poor Countries (HIPC) initiative
4. Changes in development policies of the bilateral donors of DAC members (e.g DFID of United Kingdom, AusAid and NZAID).

4.4.2 International Development Targets

These targets are based on the idea that a more comprehensive approach to development is needed. It is believed that this can be addressed through the selection of a limited number of development indicators, which can be used in measuring the success of development aid. It is believed that a few specific goals will help in making the vision of aid more explicit and will provide valuable indicators for measuring progress towards achieving the vision of development (OECD, 1996).

Table 4.3 The International Development Targets

Economic well-being <ul style="list-style-type: none">• A reduction by one-half in the proportion of people living in extreme poverty by 2015.
Social development: <ul style="list-style-type: none">• Universal primary education in all countries by 2015.• Demonstrated progress towards gender equality and the empowerment of women by eliminating gender disparity in primary and secondary education by 2015.• A reduction of infant mortality rates by two-thirds and reduction of maternal mortality rates by two thirds between 1990 and 2015.• Access through the primary healthcare system to reproductive health services for all individuals of appropriate ages by 2015.
Environmental sustainability and regeneration: <p>The implementation of national strategies for sustainable development in all countries by 2005, so as to ensure that currents trends in the loss of environmental resources are effectively reversed at both global and national levels by 2015.</p>

(Source: OECD, 1996: 2)

Few could quibble over the IDTs, but many authors point to the inherent dangers of attaching too much importance to targets because of its limitation. For example, Cox and Healey, (2000) point out that giving such weight to quantitative goals could lead to a focus on meeting specific targets, rather than considering development requirements

holistically and taking account of local needs. The focus on reducing the number of poor (using head count) may lead both donors and recipient government to neglect the poorest of the poor. That is, it would be easier to lift those just below the poverty line to above the line than lifting the poorest of the poor to above the poverty line. Likewise White (2001) pointed out that emphasising targets might lead to the danger of emphasising quantity at the expense of quality. White (2001) argued that there is not much point in over-crowded classroom with no materials and teachers.

Hanmer et al. (2000) discussed the likelihood of meeting the goals of the IDTs. Their conclusion was that in some developing regions the achievement of these targets depends on the both the rates and patterns of growth. They found that the 50% reduction in poverty is unrealistic in all developing regions, except in East Asia and Pacific and depends on the pattern of growth in South Asia. They found that there was a higher likelihood for the achievement of universal primary education, reductions of infant mortality (except in sub-Saharan Africa) and for the reduction of gender disparities in education. Demery and Walton (1998) came to similar conclusions with regard to the income poverty reduction goals. They too concluded that if countries grow at the prevailing rates of the early 1990s many will not achieve the poverty reduction goals and if inequality increased the situations is likely to be worse.

According to recent studies such as Cornia and Court (2001) inequality within countries has been rising, in most cases very sharply since the 1980s. The findings from this research indicated that rising inequality is due 'new causes' (as opposed to traditional causes of inequality such as land concentration) linked to the way that economic policy reform has been carried out. In particular they point to excessive liberalisation regimes as a major factor contributing to increasing inequality.

4.5 The World Bank/IMF and Poverty Reduction Strategy Papers

Poverty Reduction Strategy Papers (PRSPs) is one of the key elements of the World Bank's poverty reduction agenda. The PRSPs was launched in September 1999 Annual Meeting of the World Bank and IMF, where Ministers endorsed the proposal that

Poverty Reduction strategies should be the basis for all World Bank and IMF concessional lending and debt relief. The PRSPs are linked to two other initiatives of Heavily Indebted Poor Countries (HIPC) launched by the international agencies in 1996 and the Comprehensive development Framework (CDF) approach of World Bank.

4.5.1 Poverty Reduction Strategies and Comprehensive Development Framework

According to World Bank (Word Bank, 2000b: 3) the PRSP builds on the broad visions articulated in CDF and translates principles of CDF into practical plans for action. The Comprehensive Development Framework is a framework suggested by World Bank for coordinating donor, civil society, government and the private sector input into a coherent, poverty focused development programme (Wood, 2000). The fundamental principles underlying poverty reduction strategies build on the broad vision articulated in the CDF. This vision is for a comprehensive, country driven development framework.

This new approach requires the governments of countries wishing to obtain concessional loans and/or debt relief to produced PRSPs. According to World Bank the aim of PRSPs is to strengthen country ownership of poverty reduction strategies through broadening the representation of civil society (particularly the poor themselves) in the design of such strategies. The World Bank requires the poverty reduction plan to be based on sound understanding of poverty. In addition the compressive strategy should include plans for:

- Rapid economic growth
- Sound macroeconomic policies
- Structural Reforms
- Social improvements

(World Bank, March 2000b: 4)

4.5.2 Heavily Indebted Poor Countries (HIPC) Initiative

While some authors (e.g. Cornia et al., 1987) called for the reform of Work Bank's Structural Adjustment programmes others were campaigning against neo-liberalism and called for transformation World Bank and complete abandonment of its conditional Adjustment Lending. This transformist views propagated mostly by independents

authors such as Chossudovsky (1997), NGO networks and campaigns such as Jubilee 2000 called for stopping of Adjustment Lending and debt cancellation for poorest countries, and not to link debt cancellation to PRSPs. They argued that the International financial institutions such as the World Bank represented the views of the western elites who continued to benefit from their policies (Thomas, 2000).

The IMF and the World Bank initiated the HIPC initiative in 1996. This was designed to bring the debt of poorest countries down to a sustainable level. Debt service is tied to IMF Enhanced Structural Adjustment Funds (ESAF), requiring the implementation of IMF prescribed macroeconomic reform over a six-year period. As mentioned earlier the name of ESAF has been recently changed to the Poverty reduction and Growth Facility (PRGF).

4.6 Bilateral Donor Community

In addition to the World Bank, the donor community as a whole represented by DAC has given increased prominence to the notion of 'partnership' between donors and recipients in aid relationship. The 1996 OECD document titled, *'Shaping the 21st Century: the Contribution of Development Co-operation'* highlighted the need for a stronger partnership between donors and developing countries in support of their country-owned poverty strategy and for and more coordinated participation by the entire community in achieving the goals set by the International Development Targets. In response, during the late 1990s some bilateral donors of DAC member governments have changed their development policies to a more direct focus on poverty.

For example, in 1997 United Kingdom published its fifth White Paper on aid (nearly twenty years after its fourth White Paper on aid). This White paper entitled *Eliminating World Poverty: A Challenge for the 21st Century*, identified poverty reduction as its main goals. This is the first clear and comprehensive commitment by the government to use aid in helping poor people as opposed to just poor countries (Cox and Healy, 1998) and firmly established their strategy for poverty reduction. According to the White paper:

We shall refocus our international development efforts on the elimination of poverty and encouragement of economic growth, which benefits the poor.

In addition, the paper made a firm commitment to the IDTs. A second white paper (2000) *'Eliminating World Poverty: Making Globalisation work for the Poor'* set out the policy agenda for the first paper.

In the same year Australia conducted a review of its ODA program AusAid leading to a new policy directions outline in *'One Clear Objective: Poverty reduction through sustainable development'*, making poverty reduction the overarching objective of their aid program. According to the Agency their approach to poverty reduction Australia's approach to poverty reduction embraces four closely connected and mutually reinforcing pillars:

- Strengthening frameworks for sustainable and inclusive economic growth which will benefit the poor
- Supporting interventions which enable the poor to improve their productivity
- Encouraging governments, institutions and donors to be more accountable to the poor
- Reducing the vulnerability of the poor

In year 2000 New Zealand reviewed its ODA program (NZODA) and the findings of the review and recommendations were published in the document, *'Towards Excellence in Aid Delivery: A Review of New Zealand ODA Programme'*, report of the Ministerial Review Team. According to the review New Zealand's aid programme is lacking in focus, and the fact that it is being administered through the Ministry of Foreign Affairs complicates the process further as "ODA and Foreign Affairs have distinctly different missions" (p. 6) which can at times be in conflict. Hence, the first and foremost recommendation of the Review Team (p.91) was that aid from New Zealand "should be administered by an autonomous agency, that has an undistracted focus on, and accountability for, the mission to eliminate poverty" Following the Ministerial Review important changes has been brought to the New Zealand aid programme. Firstly, poverty reduction has been made the single goal of New Zealand's aid programme. Secondly, it is now being administered by a 'semi-autonomous' (as opposed to the autonomous agency recommended by the review) formed within the Ministry of Foreign Affairs.

During the 1990s the largest donor (in terms of total amounts given) and most influential donor, the United States, has been relatively silent on the issues poverty reduction and aid but recently USAID has started issuing statements and reports on this. According to USAID [online], President Bush has said that combating poverty is a moral imperative and had made it a U.S foreign policy priority. On March 14 (2002) President Bush in a speech at the Inter-American Development Bank said that the United States would increase its core development Assistance by 50% over the next three years. These funds, representing a \$5 billion annual increase over current levels is to go to a new 'Millennium Challenge Account' for helping developing countries. According to USAID [online] the funds will be distributed to developing countries that demonstrate a strong commitment to:

- Good governance
- The health and education of their people
- Sound economic policies that foster enterprise and entrepreneurship

(USAID, [Online])

The above discussion showed that there is a consensus (at least in rhetoric) that poverty reduction should be at least one of the major goals of development assistance. Some development agencies such as World Bank and United Kingdom, quote poverty reduction as the overarching goal of their development assistance program while for others like Australia it is one of the main goals. In the mean time most aid programmes promote economic development and sound economic polities as the means of poverty reduction.

4.7 The theory and practice of PRSPs: a critical review

This section provides a review of key concepts in the 'new poverty agenda' and the policy prescription, which follows from it. Table 4.4 show provides a list of key concepts that would be discussed in this section.

Table 4.4 Key concepts of the 'new poverty agenda'

THEME	EXPLANATION
1. PARTERSHIP	<ul style="list-style-type: none"> Aid relations between the developed and developing country should a 'partnership'
2. OWNERSHIP	<ul style="list-style-type: none"> Development strategies in PRSPs should be country-owned.
3. PARTICIPATION	<ul style="list-style-type: none"> PRSPs should be developed in participation with the civil society
4. SELECTIVITY	<ul style="list-style-type: none"> Aid should go to countries that have made a commitment to poverty reduction.

More specifically, the review is focuses on the following issues/questions:

- It provides a review of literature on each key concept of the 'new poverty agenda' and explains the relationship between the key concepts (e.g partnership and ownership).
- It posses the question "Are these new development tools?"
- Thirdly it provides a review of the practice of these concepts (so far)

4.7.1 Partnership and Ownership

The PRSPS placed a very strong emphasis on local ownership of ideas and partnership between the donors and recipients. It was suggested that developing countries should come up with their own development strategies that reflect local circumstances and formulated through participation of the local community and civil society in order to foster ownership.

The concept of 'partnership' between external donors and developing countries was one of the basic tenets of the OECD Publications '*Shaping the 21st Century*' and subsequently formed the basis of the World Bank's country dialogues. According to OECD (1996: 9) the achievement of these targets will require agreement and commitment from the recipient partners through "a process of dialogue and agreement in

a true spirit of partnership” and “paternalistic approaches have no place in this framework” (OECD, 1996: 13). The OECD report called for a strategy based on shared objectives and outlined some joint responsibilities, external partner responsibilities and developing country responsibilities. Table 4.5 provides the first three points (out of seven) of developing countries’ responsibilities and external donor responsibilities as examples.

Table 4.5 Developing country and external donor responsibilities in the development partnership

4.7.1.1 Developing country responsibilities	4.7.1.2 External donor responsibilities
<ul style="list-style-type: none"> • Adhere to appropriate macroeconomic policies 	<ul style="list-style-type: none"> • Provide reliable and appropriate assistance both to meet priority needs and to facilitate the mobilisation of additional resources to help achieve agreed targets
<ul style="list-style-type: none"> • Commit to basis objectives of social development and increased participation, including gender equality. 	<ul style="list-style-type: none"> • Contribute to international trade and investment in ways that permit full opportunities to developing countries.
<ul style="list-style-type: none"> • Foster accountable governments and the rule of law 	<ul style="list-style-type: none"> • Adhere to agreed international guidelines for effective aid, and monitoring for continuous improvements

(Source: OECD, 1996: 14-15)

4.7.1.3 Is partnership a new tool?

With regard to the issue of partnership some authors (e.g Maxwell and Riddell, 1998 and White 1998) argued that partnership in aid relationship is not a new concept. At the same time they argue that attempts to create partnerships in aid relationships has failed in the past. In reality, experiences showed that the road to greater partnership is littered with

potential pit-falls, as we can see by examining the experience of other donor who has travelled this road.

In their review of 'partnership' in aid relationship they argued that partnerships can belong to a 'weak model' based on just information sharing and policy dialogue while a strong mode is based on jointly agreed country targets, specific commitment on both sides (including multi-annual financial agreements). Using these criteria the partnership strategy of OECD report would be a weak model of partnership.

There have been calls for the stronger model of partnership in the past but history showed that in practice donors prefer the weaker model. For example the Pearsons Report (1969) '*Partners in Development*', the Brandt Commission '*North-South Programme for Survival*' (1980) and the Lome' Convention. Yet the commitments to a strong partnership in the former two cases failed to materialize in a real sense. According to Crawford (1996 cited in Maxwell and Riddell, 1998) the Lome Convention (which was first signed in 1975 as treaty between the EU and a group of developing countries in Africa, the Caribbean and the Pacific) was an example of a relatively strong partnership, but the gradual retreat from the high principles of partnerships since the early days is evidence to the difficulties involved in a genuine partnership.

Partnership between Northern NGOs and Southern NGOs provides more recent examples of attempts to create partnership between donor and recipients. A review of literature on Northern-Southern NGOs showed that while the Northern NGOs were happy with what they regarded as a 'partnership', the Southern NGO were less happy with it. They considered it be a relationship based on power, where the Northern NGOs with the resources made the important decisions and the Southern NGOs followed. At the same time accountability was skewed towards Southern NGOs increasing their paper work, while the Northern NGOs had no such responsibilities.

4.7.2 Participation

The World Bank's country strategy based on PRSPs emphasises the need for participation of the civil society, especially the poor, in the development of country programmes. According to the World Bank (2000: 3) the achievement of lasting poverty

reduction depends on the support of the true experts on poverty, which are the poor themselves.

The concept of participation has enjoyed increasing academic attention since the 1970s. In the recent literature one of the main advocates of participation of the 'recipients' is Robert Chambers. Chambers (1984), writing about rural development argued that in practice the true poor in rural areas are never seen or heard, nor are they the target of development strategies. Chambers (1997) extended this argument to poverty reduction and states only certain knowledge of poverty has received voice in the policy dialogue. Since whose voice is heard depends on power relationships in the society, it is only the knowledge of the powerful that has received prominence in dialogue over the knowledge of the poor themselves. He argues that this should not be the case, and that the knowledge of and realities of the poor expressed by them should be the basis of any form of poverty reduction policies.

4.7.3 Participation and Ownership of PRSP in practice

Unlike the former concept of 'partnership', civil society participation (as opposed to project stakeholder participation) is a new development strategy. As such it constitutes a radical challenge to the way the donors have conducted development planning in the past. It is a big challenge for developing countries with little practice of government-civil society engagement. A recent study on civil society participation in PRSPs conducted for DFID by the Godfrey et al. (2000) highlighted the challenges in this area. The review based on the experience of three countries (Ghana, Vietnam and Zambia) concluded that there is no common understanding of the meaning of 'participation' or how to ensure that civil society plays its delegated role. The report also noted the tension between the need to time for participation and the need to move quickly so that countries can obtain concessional assistance and debt relief. This issue has also been raised by many NGOs involved in drawing PRSPs in poor countries.

NGOs (or authors belonging to NGOs) involved in the process of drawing PRSPs in recipient countries raised many concerns about the process. A review of such critiques made by Oxfam (2000), Whaites/Currah (2002) of World Vision and Abugre (2000) of World Development Movement is provided here.

According to Oxfam (2000) the reality of PRSPs falls well short of the rhetoric. They outlined five key reforms needed to improve the performance of the World Bank and IMF practices with regard to PRSPs. The five reforms proposed by Oxfam (2000) are as follows:

- De-link PRSPs from HIPC Decision Point
- Improve IMF and World Bank ways of working to promote national ownership
- Undertake measures to ensure civil society participation in policy design and implementation
- Undertake analysis of the impact of proposed reforms on the poor, prior to agreeing implementation
- Follow through on the IMF's promise to reduce the number of conditions in the PRGF.

Whaites (2002) questioned how one could create genuine participation and 'ownership' of PRSPs when the process itself is a form of conditionality (i.e linking PRSPs to debt relief). It has been noted that one of the major shortcoming of linking PRSPs to HIPCs was that it had created considerable pressure to speed up the process. The pressure to speed up the process is seen to be at the expense of the quality of the PRSPs. According to Whaites (2002) this issue surfaced in their work both in Senegal and in some Latin American countries. In Senegal participants in the process (including government, civil society and donors) identified time constraints as the most restricting factor for the formulations of Senegal's PRSP (Phillips, 2002)

Experience showed that the first aspects of PRSP process to be sacrificed due to the timing factor is civil society participation. Waite (2002) stressed that time is crucial for broader civil society participation, especially in developing countries with no past experience in this field. Timing pressure leads to condensed consultation and limited representation of some sectors of populations such as women and women groups (Phillips, 2001). The World Bank/IMF has made participation mandatory but at the same time made a decision not to evaluate the quality of participation. According to Whaites (2002) this has created situation where the agencies can show the best intentions while at

the same time not taking any responsibility for failure to implement these in practice. It is argued that the World Bank/IMF should take a more active role in evaluating, resourcing and facilitating the process of PRSPs development.

NGOs pointed out that there was much work to be done to make 'ownership' a reality for most governments. The case study on Cambodia (Currah, 2002) highlighted some of the pressure on the government that lead to reduced ownership. When World Bank introduced the interim PRSP to Cambodia, Cambodia's RGC (Long-term vision of the Royal Government of Cambodia) which was developed in 1998 was already underway. As a result the Cambodian government requested the World Bank to combine the two documents (RGC and Interim PRSP). This request was denied by the World Bank which insisted on a separate process for the Interim PRSPs. Currah (2002) noted that interestingly despite the insistence on a separate document the World Bank did not give any resources to the government to draft the Interim PRSP or PRSP documents. It is believed that this ensures that the document is government owned (Currah, 2002).

Aburge (2000) posed a number of questions regarding the 'ownership' of PRSPs and involvement of the World Bank and IMF in the process of formulation of these papers. The questions raised by Aburge (2000) were:

- If the PRS were a government-led process, why would the Bank and Fund send numerous missions to the country to develop the PRS?
- Why would the first mission be developed in order to ensure "client commitment" to the PRS?
- Why would the Bank develop a 1000 page Sourcebook to tell developing country groups how to create a PRS and another Sourcebook to describe how to develop acceptable trade policies?

Oxfam (2000) too pointed the tension around the approval process of PRSPs and its implication for ownership. According to Oxfam (2000) though the World Bank and IMF stated that the government would be in the 'drivers seat' in the process of designing PRSPs the "present practice is more like an IMF/World Bank taxi ride, with only one choice of destination, and one choice of route". They argued that at present the 'endorsement process' of country strategies amounts of a veto of national approaches to development. According to Oxfam (2000) both the World Bank and IMF need to

become positive about national strategies for development if they want to foster genuine developing country 'ownership' of PRSPs.

Oxfam (2000) further argued that IMF should follow through its promise to reduce the conditions in the PRGF. They highlighted the case of Honduras and Malawi where the process of HIPC has been delayed due to IMF conditionality. In Honduras the entry into HIPC was delayed while the IMF demanded more progress on electricity privatisation. In addition they point out that reduced subsidies in water supply, electricity and public transport as part of the PRGF would mean that the poor will be less able to afford subsequent price rises. In the case of Malawi, the IMF is demanding rapid increased expenditure controls, and settlement of government arrears with the private sector, prior to agreeing the PRGF and thus entry into HIPC. Oxfam (2000) pointed out that in both these cases the benefits of debt relief, and increased social sector investment, had to wait while these negotiations take place.

Abugre (2000) raised the question: "Are the PRSPs a commitment to poverty elimination or a veil for SAPs?" According to Abugre (2000) even though the World Bank and IMF claim that there is no blueprint for an acceptable PRS, experience is proving that the standard for judging a PRSP is linked to recipient government's macro-economic and structural reform policies. According to the author "evidence is accumulating that the IMF and World Bank will only approve those strategies that adhere to rigid macro-economic and structural standards". Whaites (2002) shares a similar view in which he states that the PRSPs approach seems to embrace a traditional macro-economic formula of economic growth emphasising higher saving and lower inflation.

Abugre (2000) argued that continuing to design sound macro-economic policies which emphasises market based criteria and overriding emphasis on stabilizing would not lead to poverty reduction. Abugre (2000) pointed to an alternative approach suggested by Elson and Catagay (2000). According to Elson and Catagay (2000) if poverty reduction is the main objective then macro-economic policies should be geared toward the achievement of explicit social outcomes and "soundness of macro-economic policies should be judged on market based criteria per se but whether they succeed in bringing countries closer towards achieving social justice".

4.7.4 Selectivity: Increasing the effectiveness of aid

According to World Bank (1998) and bilateral donors (e.g. DFID, 1997) argued that in future donors should choose those governments that have shown political will and commitment to poverty reduction. The rationale for this is, given the limited amount of aid; donors should try to increase the effectiveness of aid.

Neither selectivity nor effectiveness of aid is new issues in development. As the first part of the research showed, the effectiveness of aid is an issue that has been debated throughout the last four decades. Since the early 1980s 'good governance' has become more and more important for aid. Good governance is often used to describe economic policies favoured by the northern governments and development agencies such as the World Bank that supports these policies. The consensus on definition of 'good governance' is a concept subject to change (Wood and Lockwood 1999: 17). During the 1980s and into the 1990s 'good governance' was free-market based policies promoted through the 'Washington Consensus'.

The continuing fall in real aid since the early 1990s and the apparent ineffectiveness of aid to bring about policy change found a new dimension in the old debate of aid's effectiveness. The research conducted by two of World Bank economist, Dollar and Burnside (2000) [first published in 1997 as a *World Bank Policy Research Working Paper*] concluded that that aid does have a positive impact on growth in good policy environments had a strong impact on the 'new poverty agenda' (especially that of World Bank). Using this evidence World Bank (1998) published '*Assessing Aid: what works and what doesn't*'. In this report, World Bank (1998: 33) stated that the lack of development in poor countries is more the result of 'policy and institutional gap' than lacks of capital and hence "there is no value in providing large amounts of aid to countries with poor policies" (p. 56). Hence, it made a strong case for allocating aid to developing countries with 'good policies' i.e. poverty-efficient aid allocation. Another research by two World Bank economists (Burnside and Dollar, 2000) reaffirmed the argument that aid contributes to economic growth, when it is given to countries with good economic policies.

These three reports had received many critical reviews. These reviews point to both theoretical and empirical shortcomings of these researches. On the theoretical side Mosley and Hudson (2001) agree that aid is more effective when given to countries with good policies but at the same time was critical of the definition of 'good policies' used by Dollar and Burnside. Mosley and Hudson (2001) pointed out that their definition of 'good policies' is oriented toward economic policies and well grounded within the World Bank's philosophy of free-market. According to the authors good policies should be wider than a narrow focus on economic policies. In addition stated that it seems inappropriate to focus on the impact of aid on growth when if our main focus is poverty reduction. Likewise Lensink and White (2000: 411) criticised the model for failing to appreciate that growth is only one channel through which aid can reduce poverty. They argue that there should be wider recognition that there is no agreement about what are the 'right policies' for either growth or poverty reduction. At the same time they pointed out that the same set of policies may not be appropriate in all times and all places.

On empirical grounds authors such as Hansen and Tarp (2000) and Lensink and White (2000) question the theory and robustness of Burnside and Dollar (2000) finding. Hansen and Tarp (2001) critically re-estimated the Burnside and Dollar equation and found that aid did increase growth regardless of the policy environment. According to Mosley and Hudson (2000) their research found evidence that good policies had a positive impact on growth but they found no evidence that the vector of 'good policies' as used in Collier and Dollar (1999) and Burnside and Dollar (2000) was good for growth. Lensink and White (2000) research found that the Burnside and Dollar (2000) empirical estimates are very sensitive to changes in model specification and sample.

4.7.4.1 Selectivity and Ownership

For many authors 'selectivity' is another form of conditionality. For example, Wood (1999) argues that the 'selectivity approach repackages conditionality; enforcing governments to implement conditionality 'up-front', that is, before they receive any money. Aburge (2000) linked selectivity to PRSPs. According to Aburge (2000 - as discussed above) the World Bank and IMF's 'litmus text' for judging the PRSPs (and the wider donor community who follow them) is their adherence to macro-economic and structural reform. Hence, Aburge (2000) argued that PRSP itself has a leveraging role, in

terms of debt relief and mobilization of development assistance. When viewed this way there is little difference between this interpretation of 'selectivity' and more traditional views of conditionality.

In summary, a number of key points can be drawn from the above discussion on the theory and practice of key concepts of the 'new poverty agenda'. Firstly, all the concepts (excluding civil society participation) are 'old development tool' which have been tried and somewhat failed in the past. Secondly, the discussion highlighted that the concepts of 'ownership' and 'selectivity' does not work together. That is, selectivity is seen as another form of 'conditionality', which by itself is barrier for 'ownership'. Thirdly, the review highlighted the gap between theory (or rhetoric) and the practice. For example, while PRSPs is supposed to be developed by developing countries, the World Bank had provided many guidelines (giving priority to economic reform) for drawing PRSPs. At the same time the PRSPs had to be 'endorsed' by the World Bank and IMF. Similarly NGOs involved in the drawing up of PRSPs argued that linking of PRSPs with debt cancellations has created a need to speed up the process, leading to the sacrifice of civil society participation.

4.8 Poverty orientation of ODA programs in the 1990s

This section reviews some of the recent literature on poverty orientation of ODA programmes in the 1990s. There are two parts to this section. The part considers if poverty reduction has been a central focus of donor aid programmes over the 1990s. This section mainly reviews European donors. The focus on European donors is due the availability of literature. The second part provides a review of the same issue, from a statistical point of view. That is, it provides a discussion on what percentages of aid has been allocated for poverty reduction over the last decade.

4.8.1 Is poverty reduction the central focus of aid

Starting with the World Bank, in 1996 a task force pointed that poverty orientation of World Bank Country Assistance Strategies for most Sub-Saharan African countries were poor. According to the task force (World Bank 1996: 53 cited in Healey and Killick, 2000) these programs gave little emphasis to poverty reduction per se or to specific

activities that will benefit the poor. A World Bank review of their poverty reduction strategies in Africa too (World Bank 1997, cited in White, 1999) found that poverty reduction was rarely a central or motivating theme in their country strategy. Even though initial poverty assessments were conducted the poverty focus is often lost by the time the project is implemented (White, 1999). Other independent critics have raised other criticisms including preoccupations with macroeconomic policy, lack of clarity on how labour intensive growth can be achieved and inadequate attention to overstretched safety nets networks (Healey and Killick, 2000).

Other donors who have received reviews for the 1990s are the European donors. These reviews shows that in spite of the rhetoric – ‘putting poverty reduction at the centre of development assistance’, poverty reduction is rarely the overriding concern of development assistance. For example, an evaluation of poverty impact of Danish aid found that most projects did not have a poverty orientation (White, 1999). Similarly, a study of European donors (Cox, et al., 1988 cited in White 2001) analysed 90 projects, which were considered as poverty oriented by the donors. Table (4.6) show data from this study.

Table 4.6 Poverty targeting of European donor funded projects

	Direct poverty targeting	Indirect poverty targeting	Other
Number of projects = 90	29	48	23

(Source: Cox et al. 2000 cited In White 2001)

This study found that less than one third of the projects had a direct poverty orientation while 23% did not have even an indirect poverty focus. Only 21% of the projects were closely targeted on the poor.

Likewise Healey and Killick (2000) make similar criticisms about European donors’ strategies for poverty reduction. After examining the county operations of seven of the principal European donor agencies in a total of seven poor countries, made the following observations:

- Contrary to the headquarters' statements of support for participatory approaches and local ownership, county strategies were usually drawn up by donors in a 'top-down' way, with little consultation within the recipient country
- Donors rarely established clear prioritisation between PR, other development objectives and commercial objectives.
- Strategies were sometimes too vague to provide operational guidance and did not provide sufficient benchmarks for judgement about performance in implementation.
- The link between donor intervention and their PR objectives was usually weak.
- There was limited cooperation on PR between European donors on PR although there was some co-operation with the World Bank
- Although some donors are introducing a sector approach there is limited evidence yet that sectoral approaches have substantially or successfully incorporated poverty objectives.

(Healey and Killick, 2000: 234)

At the country level Carlsson et al. (2000) examined the development of poverty reduction strategies of the largest donors of the European Union (EU) in Zambia in the last decade. They are the United Kingdom, Sweden, Denmark, Finland, Germany and Netherlands. Table 4.7 shows the poverty orientation of donor projects (excluding very small projects). According to the authors (Carlsson, et al., 2000) the results are based on the information provided by the donors.

Table 4.7 The Poverty Orientation of EU Members Aid Profile 1996/97 - Zambia

Country	Directly targeted (%)	Indirectly Targeted (%)	No PR Focus (%)
Finland	6	44	49
Denmark	3	27	70
UK	3	2	95
Sweden	3	11	86
EU	1	15	84
Germany	5	38	57
Netherlands	0	21	79
Mean	3	23	74

(Adapted from Table 5.2, Carlsson, 2001)

According to the report although donors perceive poverty as growing a problem, all donors did not have an extensive analysis of poverty situation in their policy papers. For example, the United Kingdom (the largest EU donor to Zambia) and Germany were fairly silent on the issue of poverty analysis. On the other hand the document from Finland contained reference to poverty problem in developing countries in general but there was no specific reference to the Zambian situation. Sweden and Denmark both had a poverty analysis of Zambia but their poverty analysis was different. The authors noted that even if poverty alleviation was high on the agenda in general, donors are not very specific about what they mean by poverty and who they regard as the poor.

With regard to the overall goals of donors, both EU and Denmark believed that their programmes would contribute to sustainable economic growth, which would trickle-down to the poor. Other donors had a more explicit goal improving the living standard of the poor people (Carlsson, et al., 2000). However, the authors noted that at the more operational level, donors in general do not expect PR to be realised through direct targeting of the poor. At the operational level the most important priority was support for economic reform. That is, five donors have this as the priority. Another operational focus is health and educations (for most donors) and EU and Denmark mentioned democracy as a priority. According to Carlsson, et al. (2000) donors did not have a specific poverty reduction objective and poverty reduction appeared as an umbrella term for their whole programme.

4.8.2 How much aid is used for poverty reduction?

Over the 1990s ODA declined from US\$ 44 billion in 1990 to US\$ 41 billion dollars in 1999, which means that in real terms that it has declined more sharply (Sobhan, 2001). At the same time ODA to middle income countries plus Indian and China was accounted for US\$ 25.4 billion compared to the US\$ 10.6 billion going to Least Developed countries (UNCTAD, 2000 cited in Sobhan, 2001).

White (1996) in his article *'How Much Aid is used for Poverty Reduction?'* reviewed the percentage of aid used for poverty reduction prior to and after the 'new poverty' agenda. White (1996) identified three approaches to measuring aid's direct poverty focus: the project approach, the sectoral approach and the country approach. On the project basic

White (1996) found that in the case of the World Bank only about one fifth of lending can be classified as poverty focused. At the same time White (1996) pointed out to shortcomings of the World Bank's definition of 'poverty-focused' projects (PTIs- Programme of Targeted Interventions) and hence argued that even one fifth is likely to be an overestimate. According to White (1996) all World Bank's projects with either a primary health or education component and all projects with activities in disadvantages regions are counted as 'poverty-focused' projects. In addition White (1996) pointed out that the World Bank's practice of counting the whole amount of the projects as 'poverty-focused' lending regardless of the percentage of project component targeted on the poor leads to overestimation.

With regard to the sectoral approach White (1996) quoted the UNDP calculations (for 1988-1990), according to which only eight percent goes to social priority sectors that are most likely to benefit the poor. While acknowledging that there are some shortcomings in this approach, he argues that this still indicated that very little aid is reaching the poor. In terms of the country allocation of aid White (1996) pointed to wide disparities between donors. While White (1996) did not provide data for all individual countries, he pointed out that the United States does very poorly in terms of country allocation as a large share of its aid is going to Egypt and Israel.

Mehrotra (2002) pointed out that many low-income countries would be unable to reach the IDTs without development assistance. That is, all IDTs with the exception of the first (halving the proportion of people living in extreme poverty by 2015) are all related to the provision of basic services such as basic health, basic education, safe drinking water and sanitation. Hence, Mehrotra (2002) reviewed ODA and ODA percentages spending on basic social services. According to the author the record of total ODA, especially since the announcement of it is not very encouraging. Mehrotra noted that only a small number of countries (Denmark, Sweden, Netherlands, Norway and Luxemburg) have ever exceeded the UN target of 0.7% of GNP for aid and that the sectoral allocation composition of ODA for social services shows similar disappointing results. More importantly, Mehrotra (2002) found that less than 10% of ODA is allocated to basic health, basic education, water and sanitation and ODA for basic services on aggregate, showed almost no change in the period after 1996 (Mehrotra, 2002).

Healey and Killick (2000) pointed out that there have been some shifts in the World Bank portfolios between 1992-1995, partly in the pro-poor direction. That is, the percentage of annual commitments for poverty-targeted interventions (PTIS) rose from 18% to 24% in the World Bank and percentage of PTIs for IDA rose from 28% in 1994 to 43% in 1995 (note it was 32% in 1993). At the same Healey and Killick (2000) noted that the World Bank allocation for basic services did not increase significantly since the announcement of IDTS. That is, IDAs lending to basic services remained at 11% between 1996 and 1999.

In summary taking an overall view of donor practices there is a wide gap between the stated commitment to poverty reduction and the actual practices in the field (at least for the European donors). Despite ambitious global targets for poverty reduction, donors are cutting back on aid and failing to target what remains on poverty reduction. Hence there is the need for a strong conscious effort by donors to ensure the PR focus remains at the forefront of development efforts.

4.9 Summary

This chapter reviewed the theory and practice of the 'new poverty agenda' with a major focus on the World Bank. The chapter reviewed various aspects of the agenda including the International Development Targets, the views of some bilateral donors, the World Bank's World Development Reports of the last decade, and the World Bank's strategy of Poverty Reduction Strategy Papers. The last part of the chapter provided the poverty orientation of aid programmes over the last decade.

The first part of the Chapter reviewed the World Development Reports of the past decade and their critical reviews. The section showed that the 'new poverty agenda' of the World Bank has been revealed through these reports starting with the 1990 World Development Report: Poverty' and culminating in the 2000/2001 WDR: Attacking Poverty. The review of these reports together with their critiques showed that the 'new poverty agenda' shared some similarities as well as differences with the theory of development assistance over the past decades. The discussion of this chapter showed that the reports have continued to adhere to development theory of the earlier decades even though they have changed to a poverty focus. For example, as pointed out by many reviewers the development strategy that is outlined by the World Bank in the World

Development Reports showed that some of the main elements of the neo-liberal ideology of past decade continue to play an important role. For example, the reports continue to promote growth (though now pro-poor growth) as the main channel for reducing poverty, reinforces the importance of private sector and the rolling back of the government. At the same time reviewers pointed out some of the major weakness of the 2000/2001 WDR as neglecting the issue of international causes of poverty such as the terms of international trade and their impact on the poor countries. On the positive, side authors noted that the strength of the new agenda the increased knowledge on poverty and the importance given to the social security for the poor. Yet it was found lacking in terms of a comprehensive policy and strategy that would match the increased knowledge of poverty.

The second part of the chapter reviewed the practice of poverty reduction over the last decade. This showed that there was a large gap between the theory and practice of the 'new poverty agenda'. The practice of the practice of PRSPs showed that the issue of 'ownership' is being compromised due to extensive World Bank and IMF focus on macro-economic reform. Likewise, linking debt relief to PRSPs has created a need to draw the PRSPs in minimal time. The discussion of this section also showed that despite the international commitment to poverty reduction, donor performance during the decade has failed to make this central goal of development assistance programmes. The review of donor portfolios over the decade showed that still a very small percentage of ODA being spent directly on activities for poverty reduction or on sectors that are known to be important for poverty reduction such as education and health.

Chapter 5: CONCLUSION

This study was aimed at tracing the place of poverty in official development assistance and evaluating the degree of continuity and change between the ‘new poverty agenda’ and past practices. The first chapter set out the background to the study and highlighted the problems of defining poverty, distinguishing between the different objectives of development assistance and identifying assistance for poverty reduction. This was followed by a historical overview of development assistance from 1960s to the end of 1980 (chapters two and three), a review of the main elements of ‘the ‘new poverty agenda’ Redistribution with Growth’ and the literature on donor practices during the last decade (chapter four). The information gathered from the historical periods of official development assistance and the reviews of the ‘new poverty agenda’ showed the degree of change and continuity in development assistance.

The first task was defining ‘poverty’ and ‘development assistance’. One of the main points that came out of the review of the concept of poverty is that it is not an easy term to define. The discussions highlighted that the concept of poverty has evolved overtime leading to the broadening of the concept, especially during the last decade. The last decade had seen an international ‘consensus’ on the nature of poverty: which is poverty is a multi-dimensional in its nature. This definition of poverty was used in this study. Yet, as the subsequent chapters on development practice showed, despite controversies over defining poverty, development practice continued to give the predominant position to income/consumption poverty. This is evident in the ‘new poverty agenda’ where income poverty is given predominance (e.g. the most important aspects of IDTs).

In the past, the term foreign assistance or aid has been used to describe many types of resource flows from rich countries to poor countries. The definition of aid has since been formalized to Official Development Assistance: resource flows (from rich countries to poor countries) of ‘concessional’ nature (latest 25% grant element) for development purposes. This is the definition of development assistance that was used in this study. While this is the formal definition of development assistance, in reality it is very hard to identify development assistance. That is, development (and poverty reduction) is just one objective of development assistance. There are other objectives of development

assistance including political and commercial interests. For this reason it is difficult to identify development assistance for purely development or poverty reduction.

One of the major tasks of this study was evaluating the effectiveness of past development efforts. The first chapter highlighted some of the problems associated with evaluating the effectiveness of development assistance, especially poverty reduction. The most important reasons for this difficulty were that any evaluation of the effectiveness of development assistance has to be based on the objective of development assistance (which varies overtime) and the lack of literature on effectiveness of development assistance in poverty reduction.

For each period or era of development assistance, the study reviewed the development theories or development ideologies of the time followed by a review of literature on effectiveness of development assistance (during that particular period). In this regard three development areas were identified. That is, eras of rapid economic growth and trickle-down theories (1950s to 1960s); poverty alleviation (1970s); adjustment lending (1980s to 1990s) and the 'new poverty agenda' (1990-).

According to early theories of development assistance the best way to develop poor countries was through increased economic growth and it was argued that aid could make a positive contribution to increasing the rate of growth. It was assumed that the benefits of economic growth would 'trickle-down' to the poor, without any other measures to target the poor. This ideology, which is often associated with the modernisation paradigm, had a strong influence on development.

During the late 1960s research conducted on aid and economic growth started questioning the assumption that aid contributed to higher economic growth and even if higher growth rates are realised whether it did 'trickle-down' to the poor. Authors such as Kuznets (1955) and others who supported his view (e.g Adelman and Morris, 1973) suggested that economic growth initially increased inequality and hence has negative impacts on the livelihoods of the poor. Similarly, empirical studies (Weisskoff, 1973; Fishlow, 1972 and Adelman and Morris, 1973) showed that moderate levels of economic growth were accompanied with increasing inequality. Other studies (e.g Griffin and Enos 1970 and Mosley et al, 1987) showed that there was no significant relationship

between aid and growth. The uncertainties over the relationship between growth and poverty (produced partly as a result of the above mentioned studies) led to the re-examination of development practice and poverty came to the forefront of debates on development assistance. Subsequently, major development agencies such as the World Bank and many bilateral donors (e.g United States, United Kingdom) promised to make the 'poor' the main target of their development assistance. While during the 1970s there was some indication that this ideology may be becoming reductant, the 1980s proved this wrong. That is, as the subsequent chapters on "Washington Consensus" and the 'new poverty agenda' showed that increasing economic growth through free markets continued/continues to be promoted as the means of means of achieving poverty reduction.

The 1970s saw the emergence of many ideas related to poverty reduction. These included theories on 'employment generation' (promoted by ILO), 'Appropriate Technology', 'Basic Needs' and the World Bank's 'Redistribution with Growth' (Chenery et al., 1974) approach. Chenery (1974) argued that there is no inherent conflict between economic growth and poverty reduction. identified a win-win situation where economic growth increased while at the same time ensuring that growth benefits the poor through specific measures to target the poor. In terms of development practice the strategies 'Redistribution with Growth' became more important with donors. The use of this strategy meant that the earlier focus of increasing economic growth remained as the major objective (as oppose to Basic Needs) of development assistance. During the 1970s Integrated Rural Development Programmes became the most important development tool, especially with the World Bank and the USAID.

The poverty focus of the 1970s led to an increase on the positive impact of development assistance to the poor in development countries. Yet these benefits were not often extended to the poorest of the poor in these societies who were continually being excluded from the development process. Case studies by Mosley et al (1987) and Ayers (1983) shows how the poorest of the poor have missed out in poverty focussed projects. The poverty focus of the 1970s was short lived. The later part of 1970s saw a series of 'oil crises' pushing poor countries into debt. The consequence of third world debt led to a debt management strategy promoted by the World Bank (as the leading development agency). The 'debt management strategy' is often quoted as being built upon the

principles of the 'Washington Consensus'. 'Washington Consensus' was generally used to refer to components of free-market ideology of the powerful Western governments including international development agencies. The Adjustment lending under the principles of the 'Washington Consensus' was mainly concerned with bringing about certain reforms (believed to good for economic growth) in developing countries. The main components of this were reducing the budget deficits of developing countries, trade liberalisation, privatisation, and reduction of government expenditure on public services. The adoption (or promise to adopt) these reforms became a 'Conditionality' for receiving development assistance.

The consequence of these policies for the poor in those countries who adopted the reforms was brought to attention of the international community in the late 1980s. Many authors (e.g. Cornia et al., 1980 and Mosley et al., 1991) pointed out that the burdens of the Adjustment programmes were falling disproportionately on the poor. There are two schools of thought on what needs to be done about the negative impacts of Adjustment programmes on the poor. On one hand authors such as Cornia (et al., 1987) called for reform of Structural Adjustment programmes and Conditionality so as to decrease the burden on the poor. On the other hand, NGO networks (e.g. Jubilee 2000) called for complete abandonment of adjustment programmes and cancellation of third world debt.

By the mid 1980s the World Bank started acknowledging the negative impacts of the adjustment programmes. They chose to take the reformist stand rather than a complete abandonment of adjustment lending. As a response to the negative effects of their programs, donors started programmes to compensate the poor. This led to the introduction of social funds and the beginning of the 'new poverty agenda'. In the earlier 1990s other events such as the poor performance of adjustment programmes in Africa, and the Asian crisis hasten the newly emerging 'new poverty agenda'.

The discussion of above chapters on past development theories and strategies highlighted some important points on the historical relationship between development assistance and poverty reduction.

- Firstly the historical overview of development assistance shows that the origins of development assistance is closely linked to theories of academics from the

developed countries. The trend of development ideas and practice as imposed from 'above', i.e. from donor agencies has been a feature of the history of development assistance.

- Secondly, it highlighted the fact that the major concern of development assistance has been increasing the economic growth in poor countries. This does not mean that aid was never concerned with poverty reduction or has never benefited the poor. Rather it was assumed that the most important channel to develop the poor countries and in the process help the poor is through increased economic growth.
- Thirdly, even though development assistance had helped the poor to some extent, it has not positively discriminated against the poor nor have it been very success in helping the poorest in developing countries. At the same time development practice have a times harmed the poor.

The next major task of the study was to review of the main elements of the 'new poverty agenda'. The review of the 'the 'new poverty agenda' focused on the following questions: Is the new 'poverty reduction agenda different from previous agenda's. If so, how is it different?

The review of the 'new poverty reduction' agenda was mixed. From a purely theoretical basis the 'new poverty agenda' has many positive points including the consensus on the multi-dimensional nature of poverty, focus on country ownership of development strategies and partnership between developing country (recipients) and bilateral donors. On the other hand, the 'new poverty agenda' is build around some of the main elements of the development ideology of the last few decades. At the same time the practice of poverty reduction in the 1990s points to the gap between the rhetoric and reality of poverty reduction during the past decade.

The first point of the 'new poverty agenda' that was reviewed in the report is IDTs. This is a number of goals agreed by the international community to be met by the year 2015. The goals are divided into three main areas of achievement including economic well-being, social development and environmental sustainability. On the positive side the goals have provided a comprehensive list for development agencies to work towards. Being so it has supported the efforts to bring poverty to the heart of development

assistance and had provided a yardstick for measuring success toward poverty reduction. On the negative side it has been noted that the focus on targets may lead to the dangers of helping the better off poor (as opposed to the poorest) in order to reach the target. At the same time the review of the development practice in the last decade have revealed that these targets have rarely been the central focus of development assistance. For example, over the last decade development assistance have decreased and sectors relevant to the IDTs (health and education) did not receive a significant increase of ODA shares by major donors.

The second aspect of the 'new poverty agenda' that was reviewed in the study is the World Bank's strategy for poverty reduction. With regard to World Bank's poverty reduction strategies three different levels of World Bank's ideas were reviewed. Firstly the report review the World Bank's developing thinking being disseminated through the World Development Reports during this decade starting from the World Development Report 1990 'Poverty' to the World Development Report 2000/2001 'Attacking Poverty'.

With regard to differences with past practices, the most welcomed changes in development thinking were the increased knowledge on poverty and recognition that poverty occurs in many forms and many levels. This has raised the issues previously neglected such as social security and empowerment. World Development Report 2000/2001 acknowledged that the private sector has failed to provide the financial and social security needed for the poor. This has led to some changes in the donors' rhetoric and practice. For example, there is now a consensus that education and health security are as important for the poor as income.

Having said that, one of the major shortcomings of the World Development Report 2000/2001 highlighted by critiques was that despite 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. For example, 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 peoples productive assets (World Development Report, 2000/2001), showed that economic development is still given priority over all other dimensions of poverty. Hence, as critical reviews

showed the World Bank's preferred approach to poverty reduction is still strongly linked to the basic tenants of the 'neo-liberal' paradigm and the 'Washington Consensus'. That is, in spite of the commitment made to the poverty reduction the World Development Reports continue to adhere to the major principal of the free-market ideology. For example, the World Development Reports continued to give the most important role to economic growth and the need to enhance the private sector while at the same time calling governments to roll back and free-up markets.

An issue that was raised by some was that of the World Bank acting as the leader of the development assistance. This question was raised from two angles. Firstly, whether the World Bank (being a bank) would be able to invest in activities generate social returns (and no economic return). For, example, the rationale for World Bank investing in activities for social protection or empowerment is weak (Shepherd, 2001). Secondly the questions were raised about the legitimacy of the World Bank being the leader of the 'new poverty agenda' given its link with the Structural Adjustment Programs that has contributed to increasing levels of poverty in some countries.

The next level of the World Bank poverty reduction strategy that was reviewed is the PRSPs. At the theoretical level these papers have much to welcome apart from the suggestions regarding 'selectivity'. The concepts of 'civil society participation' and developing country 'ownership' of the strategies for poverty reduction are indeed welcomed developmental thinking following a decade of conditionality. Yet the practice of poverty PRSP to date showed that major changes are needed to make the donor 'rhetoric' a reality. NGOs involved in the formulations of PRSP showed that it is still being conducted in an atmosphere of 'donor-recipient' relationship as opposed to the 'partnership' approach that was theoretically suggested. The World Bank and IMF are strongly involved in the formulation of the papers and the process of 'endorsement' by the World Bank and IMF has been equated to vetoing of locally driven ideas. The extensive involvement of the donors in the preparation diminishes the changes of genuine ownership. This has shown that while the rhetoric of 'partnership' between 'donors and recipients' and 'ownership' of PRSPs by developing countries are welcomed changes, there is much to be done to make these concepts a reality.

Furthermore the discussion showed commitment to reform that is believed to be good for rapid economic growth is given preference over social policies and locally determined strategies for poverty reduction when it comes to the World Bank/ IMF 'endorsement' of PRSPs. That is, even though the World Bank and IMF (and other Western donors who follow these agencies) are supposed to have shifted to poverty reduction approach they continue to stick to the development ideology of 'neo-liberalism' where social policies continue to subordinate over macro-economic policies. In terms of practice, the review of PRSPs showed getting the approval of the World Bank and IMF depends commitment to the 'right macroeconomic reform'. The call for 'selectivity' based on developing country commitment to 'good policy environments' (which equals 'right macroeconomic reform') raised the question of differences between 'selectivity' and 'conditionality'.

In terms of practice, development assistance had declined (in real terms) over the last decade. Reviews of donor performance over the decade indicated that poverty reduction is still not the central objective of most donors. For example, donor activities are rarely linked to explicit poverty reduction goals and even when initial poverty assessments are made the poverty focus is often lost by the time of programme/project activity implementation. Likewise, even when poverty reduction is high on the agenda in paper or rhetoric there is rarely a clear view about 'who' are the poor or what is 'poverty reduction'.

In conclusion while there are some new (welcomed) ideas in 'the 'new poverty agenda', it seems to be more 'reform' of the development ideology of the 1980s rather than a complete break with from adjustment lending and conditionality. That is, the development ideology is still driven from the international donor agencies level rather than from recipient level. The 'new poverty agenda' is built upon the main elements of 'trickle-down' and 'neo-liberalism' which emphasis a free-market and increasing economic growth as the major channel for poverty reduction. The rising number of poor, growing national and international inequality and the likelihood that IDTs will not be met in many countries (especially Africa) indicate existing strategies are inadequate to poverty reduction.

5.1 Areas for reassessment

If aid is to be effectively used in poverty reduction several elements of the 'new poverty agenda' needs to be reassessed. The following provides a summary of these.

5.1.1 Poverty reduction strategy

Recognise that growth alone is not enough for poverty reduction and growth may not be always be the most efficient or quickest route for poverty reduction. They should recognise the strong link between poverty reduction and social policy and consider that this is an equally important route for poverty reduction. In addition they should recognise that poverty is not homogenous and can vary according to space and time. This calls for ways of diverse channels of helping the poor and explorations of ways to help the poor more directly. The poverty reduction agenda should provide an analysis of other important aspects of poverty (that has been neglected) such as national causes of 'chronic poverty' of international causes of poverty reduction such as terms of trade are issues that need more analysis.

5.1.2 Poverty Reduction Strategies Papers

The donors should try to reduce the gap between the 'reality and rhetoric' for the positive concepts such as developing country 'ownership' and developed/developing country 'partnership'. In order to make 'ownership' a reality, donor's needs to abolish current form of 'macroeconomic' conditionality and become more flexible about what they mean by 'good policy environment'. They need to ensure that poverty reduction (increasing economic growth per se) is the central objective of poverty reduction. At the same time reduce the role of the World Bank and IMF in the process and donors need to become more flexible and develop respect for national strategies for poverty reduction. To make 'partnership' a reality donors too should increase their transparency and accountability to developing country governments and civil society.

5.1.3 Increasing ODA to match the commitments to poverty reduction

While the number of poor in developing countries are raising ODA in real terms have been decreasing. Similarly the DAC members have never reached the agreed percentage of 0.7 percent of their cumulative GNP per capita. The renewed commitment to poverty

reduction should be matched by a renewed commitment to ODA, an increase in the percentage provided to the poorest countries and sectors that have more impact on improving the livelihoods of the poor such as primary education and basic health.

5.1.4 Reconsider the Role of the World Bank and IMF

The World Bank and IMF's role in development assistance is increasing. Yet, the nature of these institutes and their past performance (in relation to poverty) indicated that they are not the best suited for this role. For example, it has been questioned if the World Bank (being a bank by nature) would be able to invest in areas, which does not produce clear economic benefits. Similarly, their association with the Structural Adjustments programmes (which at times caused poverty) raises the question: will they be genuinely accepted as leaders of a poverty reduction agenda in developing countries.

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APPENDIX

Consensus on multi-dimensions of poverty

As the international development agencies move towards reinvigoration the focus on poverty, at least there is an agreement on the nature of poverty. Table 1 provides key indicator of the multi-dimensional view of poverty.

<i>The multi-dimensions of poverty</i>
<p>Material deprivation is at the core of poverty. This includes low income and consumption levels, which lead to</p> <ul style="list-style-type: none">• Poor food and poor nutritional status• Inadequate clothing and housing• Low levels of access to health services and schooling <p>It also includes deficient command over productive assets both material (e.g. land, tools) and human assets (education, health).</p>
<p>Vulnerability and resulting insecurity are further characteristics, aggravated by</p> <ul style="list-style-type: none">• Inability to make provision against emergencies,• Vulnerability to droughts, floods and other natural disasters• Vulnerability to human disasters such as the death or illness of a breadwinner, war and civil disobedience• Vulnerability to economic phenomena's such as inflation
<p>Poverty has important less material aspects including</p> <ul style="list-style-type: none">• Dependency raising from unequal relationships e.g. landlord and tenant and man and women, creditor and debtor <p>Social exclusion, which refers to:</p> <ul style="list-style-type: none">• Inferior access to state services and other collective provisions

- Inferior access to labour markets
- Inferior opportunities for participating in social life and collective decision-making
- Lack of decision making power
- Hopelessness, alienation and passivity are thus common among those living in poverty.

- Finally the socially relative nature of poverty should be noted. People could be said to be poor when they are unable to attain the level of well-being regarded by society as constituting a reasonable minimum. Poverty thus relates to an individual's standing in society and to her or his self-esteem. 'Absolute' measures of poverty are thus insufficient because they ignore this societal context.

(Source Healey and Killick, 2000: 223-224)

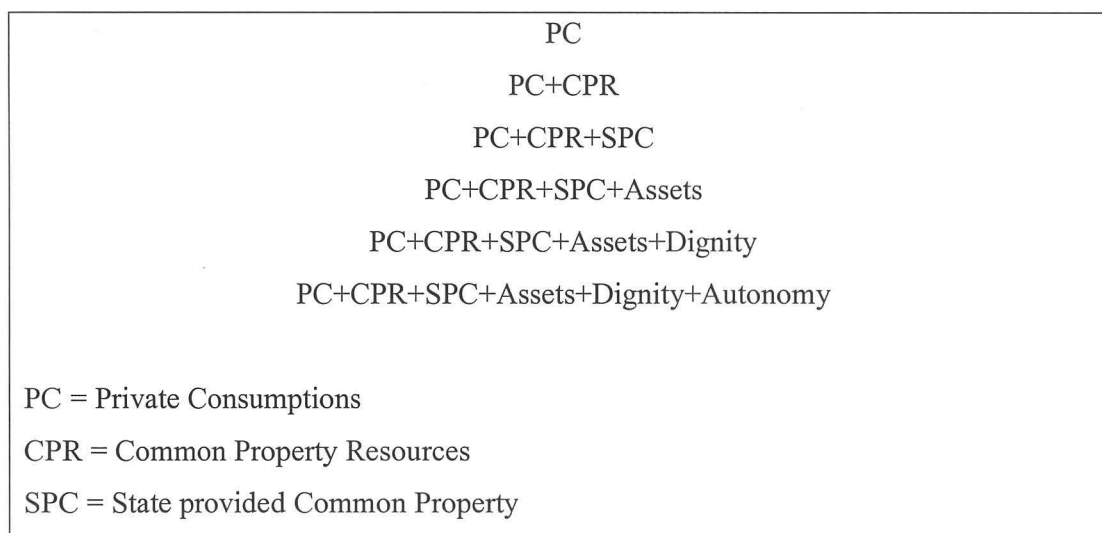
Controversies over poverty assessment

Even though there is a considerable agreement on this multi-dimensional view as shown by the new 'poverty reduction consensus', the framing of an apparent consensus on the nature of poverty tends to obscure the fact that technical debates range on the measurement of it. Beyond the consensus, details about definition and poverty assessment are more problematic. Establishing precise definitions, deciding on which weight to accord to different dimensions of poverty (World Bank, 2000: 19) and selecting methods for measuring them are issues that are still debated (Hanmer et al. 1999). Some of the major debates on poverty assessment revolve around the following issues:

1. Whether it can be measured objectively or if subjective measures are required for poverty assessment
2. Whether poverty can be measure by one variable or requires more dimensions.
3. Whether the greater policies focuses which aspects of poverty (e.g absolute poverty, relative poverty, chronic poverty and transitional poverty)

One way of understanding this change can be shown by using Bauch's (1996:2) pyramid of poverty concepts

A pyramid of poverty concepts



(Source: Bauch, 1999: 2)

Line three represents the 'traditional' narrower definition of poverty. Line four represents a broader definition of poverty aimed at capturing the vulnerability of the people through their assets. Lines five and six are even broader definitions of poverty based on both 'physiological' needs and 'sociological' needs.

Income/consumption approach versus Participatory Approach

Broadly speaking there are two main approaches to poverty assessment. They are the income/consumption surveys based on household surveys and more recently formulated participatory poverty assessment techniques. Each of these methods is related to a particular concept of poverty and has its own advantages and limitations. Table 4 shows the main differences of the two approaches

Income/Consumption and Participatory Approaches of Poverty Assessment

	Income/Consumption Approach	Participatory Approach
Methodology		
• Determinant of Well Being	Third party or priori determination	Internal/External: Interactive group determinant
• Measurement of Well-being	Quantitative: Income/Consumption Expenditure levels	Qualitative/Quantitative determination
• Sources of Data	Questionnaire survey	Participatory Poverty Assessment
• Objective	Descriptive	Critical Understanding/Empowerment
Conceptions of Ill-being		
• Constituents of ill-being	Basic Needs Deprivation	Multiple Deprivation
• Sources of Ill-being	Inadequate Consumption of Goods and Services	Multiple Sources

(Source: Adapted from Shaffer 1999: 27)

The household survey approach is based on the concept of poverty based on material needs deprivation which is measured through income and consumption levels shortfalls (Shaffer, 1999: 24). This method is focused on the material needs of the poor, especially the lowest levels income/consumption needed to satisfy minimum food requirements. Poverty line data is considered attractive as a policy tool because of the relative ease of assessing progress, which can be verified and replicated (McGee and Brock).

Participatory poverty assessment reflects the broadening of the concept of poverty over the years. As opposed to income/consumption method the participatory methods is concerned with both the determinants of poverty and the sources of poverty. Another difference between the two strategies is that while the income/consumption method is measured externally the participatory approach calls for a method that involves both the facilitator and the participants (Shaffer, 1999: 25). The major argument for participatory

method is based on the argument that the voices of the poor should form an important part of poverty assessment, as it should be prominent in the knowledge of poverty and poverty reduction policies (this argument would be followed in more detail in the next section).

PPA is better at capturing the broad perspectives of poverty (represented at the base of Bauch's pyramid) than the traditional survey methods, but these less tangible dimensions are difficult to measure and quantify. Yet when it comes to poverty reduction policies, the objective measures such as the poverty line (determined by income/consumption measures) are more popular.