WILL THE NEW AID AGENDA HELP PROMOTE POVERTY REDUCTION?

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ABSTRACT

Aid is widely perceived to have failed at poverty reduction. The last decade has seen a renewed focus on poverty and a number of changes in aid management. Will these improve aid’s effectiveness at reducing poverty? The adoption of the International Development Targets is an important rallying point in emphasising poverty concerns, but do not tell us how to achieve them. Sector programmes and Poverty Reduction Strategies can both be important in enhancing the efficiency of expenditures, though there have been problems in implementation, mainly of donors being reluctant to allow government to lead the process. Less desirable are the move to selectivity on the basis of ‘good policies’ and attempts to earmark debt relief to poverty reduction expenditures. But the real issue to be tackled is to ensure that a greater proportion of aid resources are used in ways which will directly benefit the poor.

1. INTRODUCTION

Aid’s impact remains a widely-debated issue. However, within this debate, consensus is to be found regarding aid’s impact on poverty. It is the commonly held view that aid has failed at poverty reduction. One way of demonstrating this conclusion is to point to the failure to reduce income poverty, and in some cases poor performance on social indicators, in the most aid-favoured regions of Africa and South Asia. It might be argued that aid is just a drop in the ocean in the face of such massive poverty. But this is not the case. Allowing for differences in purchasing power, using aid for a simple consumption transfer would eliminate extreme poverty (White, 1996). One of the main arguments for not giving aid is that the money can be better spent if invested in human and physical capital. But the evidence of aid’s weak impact on poverty undermines the force of this argument.

* This paper draws on the author’s experience working for a number of international agencies. However, all views expressed here are his own. Thanks to Andrew Masters and Jennifer Leavy for assistance in preparing this paper.
The last decade has seen two important developments within the international community. The first is a renewed focus on poverty reduction, which has coalesced around adoption of the International Development Targets. The second is innovations in aid management in ways linked to the notion of a more equal partnership between donor and recipient (these latter terms are now avoided). Notable amongst these changes are a move toward selectivity, that is focusing aid on countries with ‘good policies’, the rise of sector programs, and the promotion of Poverty Reduction Strategies, the latter partly in conjunction with debt relief provided under the Highly Indebted Poor Country Initiative (HIPC). This paper asks whether these changes will improve aid’s effectiveness at reducing poverty.

Part 2 reviews evidence of aid’s impact on poverty. Part 3 discusses the role of the IDTs and changes in aid management, critically appraising their impact on poverty. Part 4 concludes.

2. AID’S RECORD AT POVERTY REDUCTION

The main finding on aid and poverty reduction must be how little we know. In a review 15 years ago, Mosley stated that “of several thousand aid projects which been completed since the 1950s there is only a handful on which anyone has even made the attempt to find out whether the poor got any benefit from them” (1987: 163), and called this lack of knowledge “a disgrace” (ibid.). The situation has not changed much since. The most recent comprehensive study concludes: “there is surprisingly little evidence to indicate the type and extent of the impact of donor-funded interventions on the poor” (Cox et al., 2000: 78). Hence, two recent agency-wide evaluations of poverty reduction, one for the World Bank and one for DFID, stopped short of saying anything on impact on the grounds of insufficient data.

But an assessment can be made of the link between aid and poverty on three grounds. First, reviews have found that, rhetoric notwithstanding, there is little attention to poverty in much operational work. Second, there are various biases against directing aid to poverty reduction. And, third, what evidence we do have on aid’s impact is not encouraging.

Evidence of the low priority accorded poverty reduction in practice can be taken from a number of sources, of which four examples are given here. First, an evaluation of the poverty impact of Danish aid found “there was neither ubiquitous nor explicit poverty orientation reflected in most of the project designs or documentation of the selected interventions assessed” (DANIDA, 1996: viii). Second, a World Bank review of their own poverty reduction strategy in Africa found that “poverty reduction is rarely a central or motivating theme in the business plan or country assistance strategy… even though the operational cycle begins correctly with a poverty assessment, the poverty focus is often lost by the time a
lending program is implemented” (World Bank, 1997: 15). Third, a review of the treatment of poverty in the work of Sida found that “a large number of projects and programs supported by Sida do not specify poverty reduction as an explicit objective.. Swedish development co-operation is largely driven by objectives other than (direct) poverty reduction” (Tobisson and de Vylder, 1997: 21-2). Finally, a study of a number of European donors (Cox et al., 2000) analysed 90 projects, which were designated by the donors concerned as their most poverty-oriented projects. However, when classified according to objective criteria, less than one third of the projects could be said to have a direct poverty orientation - and 23 per cent did not even have an indirect one; see Table 1(a).

Table 1(a) Little aid is directly targeted at the poor...

<table>
<thead>
<tr>
<th>Poverty orientation</th>
<th>Direct</th>
<th>Indirect</th>
<th>Other</th>
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<tbody>
<tr>
<td>(n = 90)</td>
<td>29</td>
<td>48</td>
<td>23</td>
</tr>
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</table>

Source: Cox et al. (2000)

Table 1(b) … and poverty impact is often not large (results of survey of poverty-oriented projects of European donors)

<table>
<thead>
<tr>
<th>Targetting</th>
<th>High</th>
<th>Moderate</th>
<th>Negligible</th>
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<tbody>
<tr>
<td>(n = 82)</td>
<td>21</td>
<td>41</td>
<td>38</td>
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<table>
<thead>
<tr>
<th>Degree of participation</th>
<th>High</th>
<th>Moderate</th>
<th>Negligible</th>
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<tr>
<td>(n = 89)</td>
<td>17</td>
<td>48</td>
<td>35</td>
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<tr>
<th>Integration of gender</th>
<th>High</th>
<th>Moderate</th>
<th>Negligible</th>
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<tr>
<td>(n = 75)</td>
<td>28</td>
<td>35</td>
<td>37</td>
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<tr>
<th>Sustainability</th>
<th>High</th>
<th>Moderate</th>
<th>Negligible</th>
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<tr>
<td>(n = 67)</td>
<td>19</td>
<td>45</td>
<td>36</td>
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<tr>
<th>Poverty impact</th>
<th>High</th>
<th>Moderate</th>
<th>Negligible</th>
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<tbody>
<tr>
<td>(n = 73)</td>
<td>25</td>
<td>48</td>
<td>27</td>
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Notes: n is sample size, and figures are percentage of sample. Source: Cox et al. (2000).

These results are perhaps not surprising given the well-documented biases against aid for poverty reduction at various levels: country allocations, sector (or sub-sector) of activity and in project design.. First, there are biases in aid allocation. There is a bias in favour of small countries at the expense of large ones: in 1998 Togo received $29 per person, and the micro-economies of Cape Verde and Vanuatu received $314 and $223 per person even though each has an income per capita in excess of $1,000. This figures contrast with the $2 for each person received by China and India. Commercial and political considerations continue to distort aid flows.1 The substantial, mostly US, aid to selected Middle Eastern countries (Israel, Jordan and West Bank and Gaza got $179, $89 and $219 per person in 1998) is the main example of this. But the use of aid for commercial purposes also persists. Whilst there has been a marked trend towards untying aid,2 the practice continues to operate through informal channels.

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1 These results, and that of small-country bias, are routinely found in explanatory studies of aid allocation. The biases are strongest for bilateral flows, though multilateral flows are not immune to such pressures. See McGillivray and White (1993) for a survey.
Sectoral allocations have generally not favoured the poor, with commercial pressures favouring import, technology and import-intensive projects. Donors have been more likely to favour projects which can utilise goods and services (expatriates) from the donor country. A World Bank infrastructure project in Ghana found bilaterals queuing to co-finance the highways component, but no-one willing to support a rural feeder roads component utilising labour-intensive techniques with work opportunities targeted at women (Sowa and White, 1997). The outcome of these biases can be seen in the share of donor resources going to basic health and education. Whilst these are not the only sectors of interest to the poor, it is widely agreed that they are of great importance. In the first year these data were reported by DAC the average figure was 0.4 per cent. The most recent estimate is 2.1 per cent – an increase, though hardly an overwhelming proportion of aid resources, and well short of the 20 per cent proposed by the Copenhagen Summit’s 20:20 initiative (by which 20 per cent of government spending and 20 per cent of aid would go to basic services).

Project design frequently excludes the poor, and nearly always the poorest. Credit schemes have eligibility requirements. Whilst there may be arguments in their favour, user fees undoubtedly restrict access for the poor, and exemption schemes have been found to work badly, being mis-targeted and failing to overcome the petty corruption which impose costs on service use in many countries. And, as discussed below, the bulk of aid-financed activity is not expected to directly impinge on the lives of the poor. Nonetheless, there are continuing cases of the poor being adversely affected. Although most donors now avoid projects involving large-scale resettlement, disruptions to the lives of the poor, including loss of livelihoods, continue in various ways. Donors have fostered greater use of participation, but, as has been the case historically, there are biases in participatory processes which can exclude the less well off; see Holdcroft (1979) on the historical experience and Mosse (1993 and 1995) on current practice.

Extensive reviews of existing evidence carried out in the mid-eighties by Cassen et al. (1986), Riddell (1986) and Mosley (1987, quoted above) found little reason to be optimistic regarding

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2 The proportion of aid which is untied rose from 66 per cent in 1994 to 88 per cent in 1999. The UK government has announced that it will end the practice.

3 Where donors would only pay import costs, with government having to cover local costs, this also creates a bias toward import-intensive projects. However, this practice is no longer common.

4 The 20 per cent also includes water and sanitation (WSS). This sector does attract a reasonable proportion of aid resources, although we do not know the percentage reaching the poor. There is evidence that WSS spending is often captured by the better off. For example, over 90 per cent of spending on sewerage by the Nicaraguan social fund, FISE, went to the 60 per cent of households who are not poor (Rawlings et al., 2000: 22), though latrines were better targeted.

5 Much project failure results from technical inadequacies on the donor side – see Porter et al. (1991) – or failure to understand the socio-political context – see Ferguson (1990).
aid’s impact on poverty. As already described, the available data has not improved greatly since then, though studies do allow us to report some findings. Cox et al. (2000) found that three quarters of the 70 odd poverty projects they examined had only a negligible or moderate impact on the poor (Table 1b). The Danish study (DANIDA, 1996) found more positive results, saying that most interventions had positively affected livelihoods, though usually of rather fewer people than had been anticipated. Both studies conclude that poverty impact is highest when there is targeting, thus throwing into question the stance that “all aid is poverty reducing”. So what these results tell us is that, when targeted at the poor, aid may directly assist them. But only a small proportion of aid is used in this way.

An under-discussed issue is that of aid reducing poverty either directly – by financing activities targeted at the poor – or indirectly – by putting in place the necessary conditions for poverty reduction, be they economic, political or social. The donor community stresses the importance of indirect support for poverty reduction. The creation of such an ‘enabling environment’ is undoubtedly important, but leaves open the question of the balance of aid funds to be spent on direct versus indirect channels. Donor agencies have developed classification systems recognising this distinction. For example, DFID distinguishes between: (1) enabling actions, (2) inclusive actions, which improve opportunities and services generally, including access for the poor (e.g. health and education), and (3) focused predominately on poor people. Data for 1998/99 show the focused category to account for 23 per cent of bilateral commitments (DFID, 1999a). Such accounting systems often over-state the amount going to the poor, and other estimates of the proportion spent on activities directly beneficial to the poor are between 10 to 15 per cent (German and Randell, 1995; Killick et al., 1998; and White, 1996). This seems rather little.

3. CHANGES IN AID

The International Development Targets

The International Development Targets (IDTs), comprising goals such as halving income-poverty, achieving universal primary education, reducing infant and child mortality and gender equity in school enrolments, were drawn up in 1996 on the basis of existing UN Declarations (OECD, 1996). Since that time, the IDTs have been endorsed by most of the international community and they, or similar, targets adopted by many governments of developing countries.

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6 The DANIDA study also considered the non-income dimensions of poverty. There was found to be limited impact on the rights of the poor.

7 See White (1996) for a discussion of the issues involved in making such calculations.
Targets are not new. And many previous targets have not been met. However, the International Development Targets are important for at least four reasons. First, they are outcome-based measures. Monitoring and evaluation has been excessively focussed on input delivery, or immediate outputs, with insufficient attention to final impact. Second, the targets capture the different aspects of poverty, rather than focusing on income alone. Finally, they have served to create a sense of common purpose and provide goals against which governments and donors can be held to account.

But targets also have limitations. Excessive focus on a single indicator can be at the expense of more general improvements. In the UK this controversy has arisen as targets to reduce waiting lists in the health service are claimed to have been achieved by prioritising quicker and cheaper operations. And there is a danger of emphasising quantity at the expense of quality. There is little point in getting children into already over-crowded classrooms with no materials and unqualified, poorly-motivated teachers. Third, whilst impact does matter, there are serious problems in using the IDTs as the basis of judging the performance of one specific agency. This is not their role, though it is mistakenly seen as so in some quarters. Finally, the target indicator itself says nothing about the processes required to meet that target. Identifying poverty reduction goals is the start of defining an anti-poverty strategy, not the end.

In summary, the IDTs should not be rejected out of hand as unrealistic or irrelevant. They have served as an important rallying point in emphasising the centrality of poverty reduction. But they only serve to put poverty reduction on the agenda, not to say how it is to be achieved. Whether other recent changes will help is the subject of the rest of this paper.

**Selectivity**

Selectivity is the idea that aid should only be given to countries with ‘good policies’, or at least that resources should be focused on these countries. A paper from the World Bank research department (Collier and Dollar, 1998) is frequently cited as supporting this position. Collier and Dollar purported to show that growth depends on a policy index and aid, plus an interactive term between the two. The coefficient on aid was insignificant, but those on policy and the interactive term significantly positive. Hence aid is found to have an impact on

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8 See Maxwell (1999) for a list of previous targets just relating to food security, and Hanmer and Wilmshurst (2000) on the likelihood of achieving the IDTs.

9 The same results were presented in *Assessing Aid* report (World Bank, 1998).
growth only if the policy environment is right. Poverty reduction depends on growth – and this, according to their model, is the only channel through which aid reduces poverty (!).\textsuperscript{10}

These results have won much praise amongst donors.\textsuperscript{11} The Dutch government has cut back its bilateral aid programme to 19 countries based on the policy index. Other donors are also exploring the use of policy scores; the most recent UK White Paper on International Development warmly endorsed the idea explicitly citing Collier and Dollar (DFID, 2000).

Disagreements with this trend can have two sources.\textsuperscript{12} One is to reject in principle the idea that aid can only help the poor if it goes to countries with ‘good policies’. The second line of disagreement is to dispute the method and its application. These two reactions are discussed in turn.

Historically donors have not accepted the view that there is no way that poor people can be helped in countries with bad governments. It has been the type of aid which has been determined by a government’s policy stance, not the decision whether or not to give aid at all. This more pragmatic stance has, for example, allowed aid to NGOs to be given to South Africa under apartheid, and such practices will no doubt continue (in the case of the Netherlands, NGOs are indeed expected to play this role, whilst official aid will be restricted to countries with good policy).

In relation to the second line of argument, the Collier-Dollar results have been heavily criticised. The econometric finding is not robust – other estimates finding aid to be significant but the interactive term (or even policies) not so (Hensen and Tarp, 2000 and Lensink and White, 1999). Even if the interactive term is significant it can be interpreted as meaning that policies work better when facilitated by aid inflows (Lensink and White, 2000a), a view for which there is ample theoretical support (White, 1999a). The results are also not robust in that minor changes in model specification result in large changes in the aid allocation rule (Benyon, 1999; and Lensink and White, 2000b).

But the more serious problem is knowing what constitutes ‘good policy’. Remembering that the donor community has previously lent support to diametrically opposed policy regimes

\textsuperscript{10} There is a long-standing critique of aid-growth regressions for missing the diverse channels through which aid may affect growth (see White, 1992 and 1998). This same point applies with extra force for a model which clearly misses items such as support for immunisation programmes, emergency relief and many other ways aid may alleviate poverty without doing much for growth, at least in the short term.

\textsuperscript{11} And have been elevated to the status of ‘fact’ by the World Bank by their inclusion in World Development Indicators.
(e.g. general support for import substitution policies and particular examples such as the favour shown Tanzania in the late 1970s) there is a surprising lack of humility in advocating ‘the right policies’ for diverse countries at different levels of development and with differing socio-political contexts. This is particularly so given the lack of attention paid by donor and research communities in establishing the policy set required for pro-poor growth, rather than just good old fashioned growth. Historically much growth has not been pro-poor and there are lessons to be learned on how to change this (White and Anderson, 2000). Nonetheless, the World Bank has a policy index – Country Policy and Institutional Assessment (CPIA) – which is used to allocate resources. Whilst the CPIA was the basis for the Collier-Dollar results, in a hypocritical lack of transparency, these data are not in the public domain. Even recipients do not know ‘the score’ on which their allocations are made. That aside, there are problems in applying such an index which have not been addressed by donors.

A first issue are the severe measurement problems for many variables which may enter the index, for example trade openness. There is a battery of measures of openness. Pritchett (1996) describes four main types of trade policy indicators and shows the different measures to be entirely uncorrelated. Inflation and the budget surplus are also problematic components of a policy index for several reasons. First, inflation is not in itself a measure of policy and a budget surplus can be improved by lowering spending or raising revenue, which may be expected to have rather different results. Second, and more importantly, the nature and extent of their relationship with growth is disputed, though most agree it is non-linear. Measures of institutional quality remain a subject of some debate (Moore et al., 2000).

Even if we agree on which variables are to be included there are problems in the construction of a single index. Taking a linear combination suggests a linear relationship between each of the policy variables and growth, which is almost certainly not the case. Theoretical analyses often suggest the existence of non-linear relationships, such as threshold effects and inverted U curves, between explanatory variables and economic growth. There may even be complementarities between the different variables, that is some policies work better if implemented in conjunction with other policies, requiring interactive terms.

Further problems arise in trying to apply selectivity in practice. The first is the decision rule to be applied: is there some threshold value for the index as a whole, or do some (or all) of its components have individual thresholds? If the former, then a country can get away with mass torture provided it has a very liberal trade and exchange regime. But if the latter, a country’s

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12 This discussion draws heavily on Lensink and White (1999a).
reform may be jeopardised by falling behind in just one area of the program. Either way, weights have to be applied to the different bits of the index - how is this to be done? A third problem is how to allow for exogenous shocks which may knock policy off course through no fault of the government. Finally, should aid be allocated according to the level of the policy index or its change (i.e. should we give aid to a country with a good, but worsening, policy index, rather than one with a poor, but improving, index)? None of these issues, which are very real practical problems facing an aid administrator attempting to take up have been explicitly addressed by the donor community. It can only be concluded that the idea of selectivity has been poorly motivated and not well thought through. The chances that it will enhance aid’s impact on poverty do not seem great.

**Sector programmes**

Sector programmes go under a variety of names: Sector Investment Programmes (SIPs), Sector Expenditure Programmes (SEPs), Sector Wide Approaches (SWAps) and simply Sector Programmes (SPs). The basic idea behind a sector programme is that it should be a government-led process, which agrees a sector strategy in consultation with donors (and possibly other actors) in return for donors financing implementation. Various documents (e.g. Harrold and Associates, 1995; Jones, 1997; and White, 1999d) have identified the key features of a SP as: (1) sector-wide in scope; (2) a coherent policy framework; (3) local ownership; (4) all main donors included; (5) common implementation arrangements; and (6) reliant upon local capacity. There has been a rapid rise in sector programmes in recent years. Up to the end of 2000 there were approximately 80 SWAps, 80 per cent of which are in Africa and over half are in health and education (Foster, 2000).

However, there are two widely divergent views of sector programmes. One extreme sees sector support as the next generation of programme aid (rather like a World Bank Sectoral Adjustment Loan, SECAL). In this view, a sector programme is sector budget support as the dialogue relates to a particular sector, but the funds are simply programme aid. At the other extreme, sector support is little more than a project list, with a bit of policy dialogue thrown in. The rationale for the latter approach is that traditional projects have failed as the approach has been uncoordinated, fragmented and, thereby, unsustainable (see Okidegbe, 1997: ix).

In practice most SPs have combined the two approaches. Some donors, such as Sweden and the UK, have been prepared to provide unearmarked budget support whereas other donors have either provided finance for projects implemented by the Ministry of Education, or directly to their own projects. The Zambian Health SIP was in the past often held up as a
model SP,\textsuperscript{13} but it was not a SP in that the “common basket” was a very small percentage of the funds going into the sector. Table 2 shows that the situation is changing somewhat, but that the majority of donor funds going to the sector are still project specific.

### Table 2 Donor contributions to basket as share donor support to health

<table>
<thead>
<tr>
<th></th>
<th>Period</th>
<th>Total (US$ million)</th>
<th>Share of donor’s aid to health sector</th>
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<tbody>
<tr>
<td>Denmark</td>
<td>1999</td>
<td>2.64</td>
<td>34</td>
</tr>
<tr>
<td>Ireland</td>
<td>1999</td>
<td>1.04</td>
<td>42</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1994-99</td>
<td>1.12</td>
<td>Raging from 0 to 30 during this period</td>
</tr>
<tr>
<td>United States</td>
<td>1999-2004</td>
<td>Up to 20</td>
<td>4</td>
</tr>
</tbody>
</table>

Source: White (1999c)

Related to these two differences in approach are two important, and unresolved, questions on the nature of sector support:\textsuperscript{14} (1) is budget support intended to financial incremental expenditures?; and (2) the extent to which a donor is identified with particular components of the programme, and the implications of any such identification.

These issues show up as ambiguity in some documents published by the World Bank in which are mentioned both financing a “time-slice”(a budget support approach) but also of picking up the bits of the programme that no one else wants (which must imply a project-based approach). Under the former conception, budget support is certainly fungible and may even be free resources,\textsuperscript{15} hence the \textit{de facto} increment in expenditure in the sector will be less than the support. Whether the funds result in incremental expenditure under the second approach depends entirely on whether the “projects” are things that the government would normally include in its expenditure programme in the absence of donor assistance. If the sector approach merely means that each donor ensures that “their project” is included on the sector list then fungibility is limited or non-existent. Whereas if donors pick up the tab for core elements of the expenditure programme (designated as “a project” for accounting purposes) then fungibility is high and so sector expenditure not rise by the amount of the support.

What does it mean if a donor’s funds are accounted against a project? Does this mean that this project is “the donor’s project” in that the aid may be formally or informally tied to goods and services from that donor, that that country’s personnel may be engaged in project

\textsuperscript{13} The donor’s view changed once government commitment evidently waned following a change in Minister, which illustrated that the commitment had never been deep-seated and donors had been rather over-optimistic.

\textsuperscript{14} For a longer list of issues see White (2000d).
management and that the agency undertakes project monitoring and supervision (or at least expects progress reports on the project)? The project-based approach would suggest that the answer to these questions is “yes”, in which case the break with the past is not very great. The alternative view is that sector aid should not merely be project aid by another name: whatever the accounting procedures, the donor should be involved only in arms-length monitoring at the sector level - all projects are implemented by the relevant line Ministry (which can, if it wishes, contract external assistance on a competitive basis).

There is an alternative view which disputes the sharp dichotomy made here between the two approaches to budget support, and it is this alternative which is currently being promoted by donors.16 In this view the important thing is that government makes an expenditure plan which clearly identifies capital and recurrent expenditures (including the recurrent implications of all capital expenditures), and thus calculates the amount required for the sector. Following this approach it does not matter if some donors adopt a project-based approach to sector support, provided sufficient use envelope financing or are willing to disburse against recurrent costs to ensure that both capital and recurrent expenditures are fully covered. Implicit here is the view that sector support is mostly, if not entirely, expected to lead to additional expenditures and that some donors, at least, will still fund projects with “their name on” under the sectoral umbrella. However, there are at least two difficulties with this conception. First, to the extent that donors do retain projects then the expenditure programmes remain donor-driven, with all the problems which that brings. Second, one can easily foresee political difficulties in a system whereby some donors fund the recurrent costs for other donors’ projects.

The sector approach has been arrived at from two different directions: one as the next generation of programme aid, and the other as a new form of project management. The different directions have resulted in different conceptions as to what a sector approach is and there are tensions between these two approaches. But these tensions are not irreconcilable. However, the discussion here suggests that too great a tolerance of project-based aid within sector programmes is problematic and will undermine local ownership.

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15 Fungibility is the idea that aid finances the incremental expenditure rather than the purpose for which it is intended. If there is no intended purpose then aid cannot, by definition, be fungible, but is free resources. This distinction is made in White (1999b).

16 Under the approach being adopted by the SPA a donor may contribute to a sector programme in up to four ways: sector budget support, project assistance, technical assistance, and disbursement to third parties (e.g. NGOs) (SPA Working Group on Economic Management, 1998).
Poverty reduction strategies

Current thinking favours the development of poverty reduction strategies (PRS). This idea has been given a boost by the requirement to produce a PRS paper (PRSP) as a pre-requisite for accessing debt relief under the HIPC facility. There are said to be five “Principles Underlying Poverty Reduction Strategies”: (1) country-driven, (2) results-oriented, (3) comprehensive, (4) partnerships, and (5) long-term perspective. Are these principles being satisfied in practice, and are they compatible with poverty reduction?

There is a strong feeling that ‘ownership matters’ – a feeling confirmed by project-level evidence and analysis of aid-supported reforms. Hence the PRS should be country-driven. When the Enhanced HIPC facility was being developed there was a view that conditionality should focus on policy process rather than content (e.g. Foster et al., 1999; and DFID, 1999b). Donors would want to see that the poverty reduction strategy was developed in a consultative and inclusive manner, but not attempt to pre-determine what the content of the strategy would be. In theory this would have meant replacing old policy conditionalities (on money supply, retrenchment etc.) with process conditionality. This has not happened. Whilst there is a focus on process, this is in addition to traditional policy-related conditionality. Indeed, country-ownership has been further threatened by the perceived importance of a World Bank-IMF led process. There are several examples (e.g. Ghana, Tanzania and Zambia) where countries had developed or were developing their own strategies which have been effectively sidelined by the PRS process. These same reflections expose the limited nature of the partnership surrounding PRSs.

PRS do better on the other three principles, of being impact-oriented, comprehensive and long-term. The problem is rather that if the strategy has been developed in isolation from the relevant line agencies, as was often the case with adjustment programmes, then there will be problems in implementation. Such cases suggest that commitment to poverty reduction may be more rhetorical than real. Concerns are also raised with respect to the need to be comprehensive. On the one hand, this is a commendable principle. Poverty is seen as being multi-dimensional. Moreover, the different dimensions interact so it is best to address poverty on several fronts. However, the language is reminiscent of the Integrated Rural Development Programmes of the 1970s and eighties, which are widely perceived to have been failures. Is public service in low-income countries really so much better now (after over a decade of demoralisation through declining terms of service in several countries) than it was twenty years ago? If not, how will problems of co-ordination and implementation be over-come?

In brief, the evidence that Poverty Reduction Strategies are truly owned by recipient governments is not strong. Without this ownership they are not likely to carry through the significant change in policy orientation implied by putting poverty at the heart of development efforts.

**Linking debt relief to poverty reduction**

Debt relief has been linked to poverty reduction in two ways. The first is that, to receive debt relief under HIPC, a country must have a Poverty Reduction Strategy Paper (PRSP) approved by the World Bank and IMF. The second possible mechanism is to ‘earmark’ the use of funds. In general, this should not be done. Programme aid generates countervalue when the forex is sold for local currency. In the case of debt relief the forex is used by government to pay external debt, so there is no sale of forex and so no countervalue. But there can be *shadow countervalue*. The donor providing the debt relief may require that the local currency equivalent of the relief be spent on a specified use. This is the principle behind debt-for-nature and debt-for-development swaps which some NGOs have carried out. Official donors may also do this if they require that the money ‘saved’ from debt relief is spent on, say, health and education.

Earmarking seems attractive, but there are good reasons to not do it. It seems a good idea to make sure the money is spent well, and as donors need to show that this is the case. But fungibility means that donors may not in reality finance what they earmark their funds to. And if they do then they may distort spending. It is better to give programme aid only to governments whose spending priorities are (broadly) compatible with donor poverty reduction objectives. Resource allocation can be a matter for policy dialogue rather than restrictions on the use of funds. Besides which, it is not in practical terms possible to trace the use of any one donor’s individual programme aid contribution. Attempts to do this have resulted in very messy and time-consuming accounting procedures (see White, 1999b and 1999d). And it is not always the case that programme aid should be used for additional expenditures. There are cases when it may be sensibly added to reserves or used to reduce deficit financing.

Poverty funds have become popular with donors. These can be important as signalling a commitment to poverty reduction and as a way of both giving political protection to poverty reduction expenditures and satisfying donor accountability requirements. But they need not imply earmarking. They do this by being a window the money passes through. The Tanzanian
Poverty Reduction Budget Support Facility is an example of how this can work. An outline of the scheme is: (1) donors pay forex into PRBS account at Bank of Tanzania; (2) Bank of Tanzania releases equivalent amount of local currency to government account, an audit of this stage is given to donors; (3) quarterly statements by Ministry of Finance on releases for health and education salaries, to exceed payments into PRBS facility (thus ensuring donors can account for funds, though with no attempt to trace ‘own funds’ nor safeguarding against fungibility); audited by donors and annual independent audit; and (4) quarterly meetings review all public expenditures and discuss macro issues.

In summary, the link between debt relief and poverty reduction is partly through the possibility for better policies, although the discussion of selectivity raised questions as to what these policies may be. Debt relief also undoubtedly makes resources available to debtor governments. If these governments have pro-poor expenditure patterns the poor will benefit. It is not a good idea to try and ‘enforce’ pro-poor expenditure through earmarking.

4. CONCLUSIONS
This review of the likely impact of the new aid agenda on poverty reduction has been mixed. But, with the exception of selectivity, many of the observed shortcomings are in implementation not conception. The emphasis put on local ownership in both SPs and PRSPs is surely right. The shortcoming has been the difficulty, if not downright reluctance, donors have had in redrawing the recipient-donor relationship to be closer to a true partnership.

But both SPs and PRS put considerable emphasis on process. Is this process-orientation all that is required for poverty reduction? Surely not. Part of the story must also be the delivery of goods and services to the poor. There is of course something in the argument that institutional capacity is required for service delivery. But undue emphasis on institutional development will result in top-heavy projects, quite possibly dominated by expensive foreign experts, with little money spent on the goods and services which reach poor people. Moreover, developing capacity in the absence of actually doing something is a rather vacuous activity which results in worthy reports but little impact. There is therefore a need to look at the balance between the monies spent on direct and indirect poverty reduction and to make this decision based on the needs of the poor, rather than of aid administrators or in response to commercial pressures.

18 Indeed, with many forms of debt relief, for example Fifth Dimension, the forex does not pass through government but is passed directly from donor to creditor.
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