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## Aid and poverty: Why does aid not address poverty (much)?

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## WIDER Working Paper No. 2013/020

### **Aid and poverty**

#### Why does aid not address poverty (much)?

Andrew Shepherd<sup>1</sup> and Sylvia Bishop<sup>2</sup>

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#### **Abstract**

Aid is not generally aimed at the poorest people, though most multilateral or bilateral agencies would like to think they get included. However, donors' strategies are generally blind to differentiation among the poor, and have not improved in this respect. The special provisions for the least developed countries, where many of the poorest people live, have not worked well. Aid to conflict-affected countries is itself in crisis. Much greater and more integrated aid is called for in both cases. Middle-income countries are themselves becoming donors, but the poorest populations of these countries have benefited from international partnerships which draw attention to the poorest and help foster innovative policy responses. Equity is far from being a strong principle of aid givers UNICEF is the exceptional agency. The human rights based approach to development, which would give much greater weight to the poorest, in practice languishes at the margins of development, though where this has been taken up in middle-income countries (e.g., India) donors have stood on the sidelines. Explanations of this fairly dismal state of affairs are offered in terms of political economy and organizational and profession incentives. Finally the paper sketches a set of issues which need to be incorporated into the post 2015 framework and its preparation if poverty is to be taken more seriously by donors.

Keywords: aid, poverty, conflict, least developed countries, post-2015

JEL classification: F35, F50, F55, D63, I38

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## Acronyms

AfT	aid for trade
DFID	Department for International Development (UK)
GNI	gross national income
IFIs	international financial institutions
IPCC	Inter-governmental Panel on Climate Change
LDCs	least developed countries
MDGs	Millennium Development Goals
MICs	middle-income countries
MPI	multidimensional poverty index
ODA	official development aid
PRSs	poverty reduction strategies
SSA	sub-Saharan Africa
WDI	World Development Indicators

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## **1 Introduction: how should we think about aid and poverty?**

Much aid over the past two decades has had poverty reduction as its goal, and the Millennium Development Goals (MDGs), to which donor countries have signed up with varied enthusiasm, have provided such global legitimacy to this goal, that donor governments have felt more or less constrained to move on from it. Aid has historically been remarkably fickle in its priorities, but the poverty reduction goal has stuck, as have the other deprivation reduction goals of the MDGs. However, the focus on poverty eradication (rather than reduction) is now threatened by competing concerns, for economic growth, the promotion of democracy, and addressing climate change. The war on terrorism also threatened to subsume poverty reduction for a time, as donors reallocated aid towards fragile states, which in some cases were not where the biggest numbers of poor people live.

Growth is partly supported because without it, poverty reduction and political stability are barely possible in the long run. Poverty reduction can occur through reducing inequality; but the resources for redistribution have to come ultimately from growth. In a sense, then, a focus on growth is entirely complementary to one on poverty, and many of the same policy and institutional levers will be entailed in promoting both. But in another sense, the concern with economic growth focuses indicators back to averages and away from distributions, and away from the mechanisms of job creation and sectoral investments which will reduce poverty: not all growth reduces poverty. It does, on the other hand, retain the valuable emphasis on human development which the MDGs have fostered, since it is very clear that economic and human progress are interdependent.

Democracy, clearly a huge good in itself, is another potential distraction. Pro-poor development requires effective as well as legitimate government, and a centre of leadership and vision which may or may not spring from democratic political competition (Steer 2011). The best policy frameworks for reducing poverty are not necessarily found in the most democratic countries (CPRC 2008: Ch 2), although democracies, classically, are better at avoiding creating the worst impoverishing regimes. But competitive elections also provide opportunities for political parties to lay out their stalls on how they will address poverty—the way in which political parties have begun to compete over the social protection agenda is a good example. As democracies bed down, and issue politics sits alongside or even supplants clientelistic competition, this will become more salient. In the past, however, the most pro-poor regimes have been based on political movements rather than electoral competition. It is not certain that this will not continue.

The belatedly rush to arrest and adapt to the changing climate should also be complementary to reducing poverty, since the poor are said to suffer the worst ill effects of the changing climate. However, the climate and poverty discourses have been almost entirely separate, with a little overlap on adaptation issues. Only in the process for the latest IPCC report is a strong consideration given to the links and overlaps. No climate event has yet focused centrally on the consequences and involvement of the planet's poorest. This situation is potentially more damaging than the concerns for growth and democracy, since international resource flows to mitigate and adapt to climate change are predicted to exceed official development aid (ODA) by 2020. (Whether this actually happens must be in doubt, given the slow rate of disbursement so far, and the long-term economic recession affecting the OECD countries.)

Most aid actors would like to see poverty reduction as occurring on the back of, as a by-product of aid, focused on the objectives of human development, growth, democracy and addressing climate change. Human development is indeed close to poverty reduction, and there is a strong discourse around multidimensional poverty (read deprivation). Human development and growth are *the* areas where aid can claim success: with many countries progressing well towards the human development MDGs, underpinned by a significant reallocation of aid to the social sectors over the past 20 years; and aid is strongly causally linked to economic growth by the bulk of the many regression analyses which have looked at this question. Such arguments are valid. There are few who work for donor agencies that prefer to retain a more strongly poverty-focused approach. However, this paper will suggest that an approach focused on the poor themselves, their lives, their trajectories and life histories wherever they are, retains merit, that development policy aimed at eradicating poverty will be enhanced by such a focus, and that there should be more of it, not less.

In particular, the paper suggests that there is merit in focusing on the poorest people, those who are poor inter-generationally, for their whole lives, or who are way below the poverty line. Policies, programmes, regimes focused at least partly on them will help create the kind of good societies which will enable the benefits of progress to be shared across the planet. There is also merit in focusing on socioeconomic mobility: what it takes to escape poverty, and prevent impoverishment.

## 2 Who and where are the poorest?

The poorest people are those whose standard of living is well below the poverty line (here the global US\$1.25 a day line, but national poverty lines often vary significantly from this standard, some being significantly below, others above), who have been in poverty for many

### Box 1: Poverty thresholds—a global governance issue

A note on thresholds is in place, since they affect the results so radically. Currently there is no properly governed way of assessing global poverty. The World Bank is free to develop its measures; and UNDP's *Human Development Reports* free to develop theirs. One could say that this situation does not matter, the important thing is to look at the trends with any given measure, and also that country data are more important than international. But it is at the least confusing to policymakers as well as lay people. The same debates are replicated at national level, though here poverty lines are usually tied to nutritional minimum standards—there is a food poverty line and a basic needs poverty line, which is food + a bit for other consumption. But even there, the debates can be ferocious; witness India's recent unresolved debates (Mehta et al. 2011).

The point to be taken from this discussion is that there is a global governance deficit around the production of these global numbers which are then widely used to compare countries, examine trends, and generate commitments of aid. What needs to be done? The orthodox approach would be to set up a committee of experts to advise the international organizations collectively on a basket of measures, and thresholds, which would be comparable and based on available data. As the data change, so new measures could be added. This would mean that individual organizations would not be free to develop and change their measures.

years or a lifetime, and who are multidimensionally deprived. The US\$1.25 threshold has been disputed, most recently and cogently by Deaton and Dupriez (2011), who argue that US\$0.99 is a better representation of a poverty line in the 50 countries where most of the poor live.

The chronically poor have been studied by the Chronic Poverty Research Centre,<sup>1</sup> the severely poor by IFPRI (Ahmed et al. 2007), and the multidimensionally poor most recently by the Oxford Poverty and Human Development Initiative. Using these sources we can build a picture of the poorest people on the planet. The severely poor are the smallest group; then the chronically poor, which includes most severely poor people; and then the multidimensionally deprived, which has been estimated as a bigger group than the US\$1.25 a day poor. This is because a certain threshold (the number of dimensions on which a household is deprived) has been selected as with all measures of poverty. A higher threshold would produce a smaller number of people. In all cases the majority of poor and deprived are in South Asia and sub-Saharan Africa.

## **2.1 Severe poverty**

The major available global study of severe poverty was based on data from the early 2000s, and this has not been updated (perhaps an indicator of the level of interest in the world's poorest people). Although so much focus internationally is on US\$1 a day poverty, and nationally on the national poverty line, there are large numbers of people who are either way below these poverty lines; or poor over very long periods of time, a lifetime, or inter-generationally. These people are what this essay calls the poorest. IFPRI estimates the poorest at 485 million in 2004, of which 162 million lived with less than US\$0.50 per day (IFPRI (2008)). The CPRC estimates the chronically poor as between 320 and 443 million in 2005 (CPRC 2008: 9). These numbers were revised to 336-472 million at the US\$1.25 a day threshold.

The severely poor are also frequently hungry. While the hunger threshold is generally around 2200 calories per day, a substantial group of people survives on less than 1600 a day—the ultra-hungry. This includes most of those defined as hungry in SSA. The poorest people were socially excluded, living in remote regions with few assets and education, and landless (in Asia).

The severely poor are mostly also chronically poor; but the chronically poor are not all severely poor, so severe poverty is often a good predictor of chronic poverty (McKay and Perge 2011). But, since chronically poor people are not always severely poor, severe poverty is therefore an inadequate proxy for chronic poverty; it covers a proportion of the chronically poor, but not the whole (McKay and Perge 2011).

This would suggest that the number of chronically poor people—if we had good enough longitudinal data to measure it well—might be significantly higher than the figures given above.<sup>2</sup> When presenting the 2008 Chronic Poverty Report to a World Bank audience very familiar with poverty across the developing world, the comment was made that the causal

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<sup>1</sup> See [www.chronicpoverty.org.uk](http://www.chronicpoverty.org.uk)

<sup>2</sup> An alternative, much higher estimate was made by Nandy (2008), though this was not methodologically accepted by those who had led the CPRC exercise.

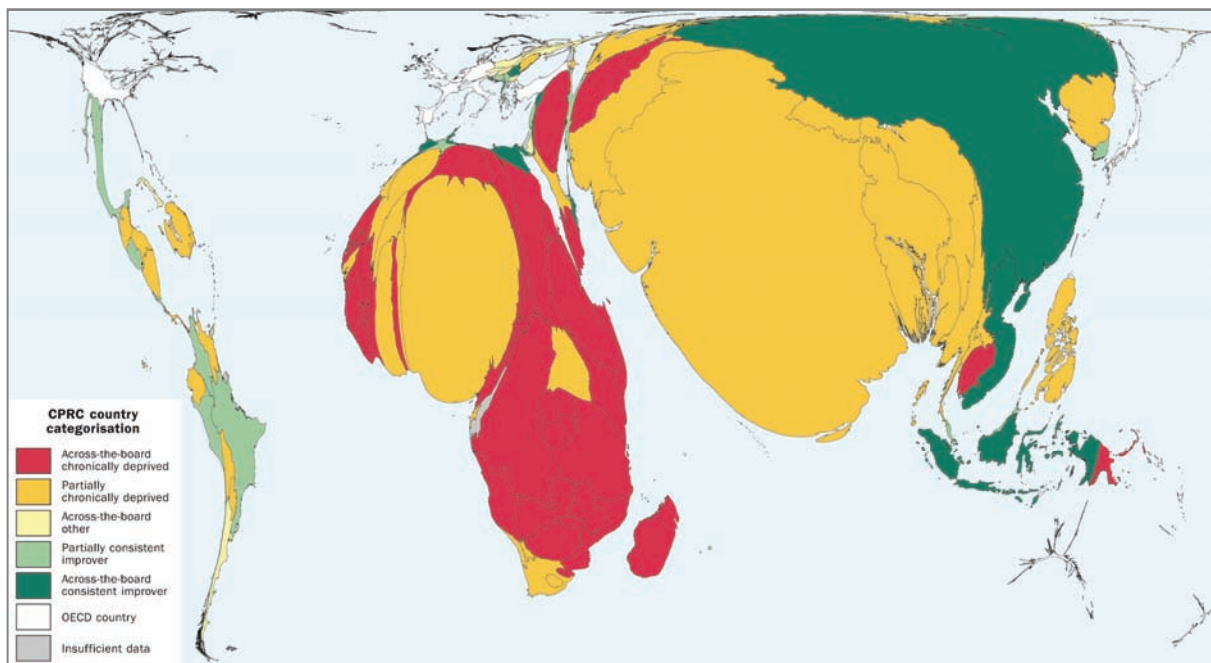
analysis proposed by the CPRC seemed to account for more people than the numbers suggested. The assumption here is then that severe poverty < chronic poverty < US\$1 a day poverty < multidimensional deprivation.

## 2.2 Chronic poverty

Among the 1.4 billion absolutely poor people in the world, almost half a billion are chronically poor—poor over a long period of time, a lifetime, and may pass their poverty to the next generation.<sup>3</sup> The eradication of all poverty happens through a combination of large-scale social and economic change, policy actions and specific interventions. Addressing chronic poverty is a particular challenge, requiring pro-poor economic growth, developing a ‘good society’, and protecting poor people against multiple risks. Policymakers need to know how to include the almost half a billion chronically poor. If they cannot be included in development on good terms, poverty as a whole cannot be eradicated (Shepherd and Scott 2011).

Two international Chronic Poverty Reports have painted a picture of who the chronically poor are (CPRC 2004, 2008). In brief summary, they are often multidimensionally deprived, and may experience preventable deaths early (and so are not even counted). They are mostly economically active, but are poor because of their positions within households, communities and countries. The Chronic Poverty Report 2008-09 described five ‘traps’ which separately, and very powerfully together keep people poor: insecurity, limited citizenship, spatial disadvantage, social discrimination and the poor quality of work opportunities. Spatial inequality within countries leads to concentrations of chronically poor people; some *countries* are also chronically deprived (Figure 1).

Figure 1: Country-level deprivation over time



Source: reproduced with permission of CPRC.

<sup>3</sup> But as mentioned in the previous paragraph this is likely to be an underestimate. In any case it is a crude estimate, necessarily.

### **2.3 Multi-dimensional deprivation**

While the MDGs have focused the world's attention on the multiple nature of deprivation, and UNDP's *Human Development Reports* and governments worldwide have extensively used the human development index as a measure of progress alongside economic growth and income poverty, it is only recently that there has been enough data from enough household surveys in developing countries to produce survey-based indicators of multidimensional deprivation. The new multidimensional poverty index (MPI) has produced data for 104 countries based on 10 indicators, with the data derived from some of the most reliable sources available. Eight of these indicators track the MDGs. To be multidimensionally poor, a household must be deprived across 30 per cent of those weighted indicators. While this is an arbitrary threshold (and the thresholds for each indicator are also a matter of judgement as are all poverty measures), the relative rankings of countries do not change hugely if you make it 20 or 40 per cent.

The analysis of the MPI suggests that the most multiply deprived households are in Africa, also the location of the severest poverty; the largest number of multidimensionally deprived are in South Asia, also where the largest number of poor people are; and that there are a number of different patterns of multiple deprivation which can be discerned. This latter finding is especially important, as it can be used to direct investment and public expenditure. There is a highly imperfect overlap between the MPI and income/consumption poverty, especially in the poorest countries, where there are many *non-income poor* people who are nevertheless multidimensionally deprived, largely reflecting the incapacity of their states to provide the basic services which would reduce multidimensional deprivation.

### **2.4 Building a dynamic picture**

Whereas multidimensional deprivation has been widely recognized—in the MDGs, and in the anti-poverty strategies of most countries, with a strong focus on some aspects of human development—severe and chronic poverty has received less attention in most places. Furthermore, most poverty analyses present a static picture: on the incidence and numbers in poverty, the dimensions across which people are deprived, and what this is correlated with. Poverty analysis, and resulting policies, can be greatly enriched if a dynamic picture is built, building understanding of nature and processes of impoverishment, the causes of upward mobility out of poverty and deprivation, and the reasons for chronic poverty. These are the realities which lie under the bald static picture statistics, which pre-occupies too much of 'poverty studies'. Policy, programmes and evaluation can then focus on whether impoverishment is being effectively prevented; whether people's efforts to escape poverty are being assisted or blocked; and whether the exclusion, discrimination, adverse incorporation, and inequality which underpin chronic poverty are being effectively addressed. These are also questions that somehow need to be built into the post 2015 development framework.

For this, there is a need for better data and analysis. Countries need to invest in panel data, and accompanying qualitative research to get a rich picture of socioeconomic mobility across a number of dimensions and areas of social change. Just as donors have pooled their aid in support of country budgets and sector programmes, so pooling aid which already goes into surveys and information-gathering to provide the backing for serious efforts to track progress over time with panel households, and to find, through qualitative research, the explanations for change or the lack of it, is a major project for the next decade. Generating this dynamic understanding will improve policy responses to the issues of hundreds of millions of people.



### 3 Poverty-focused aid?

Has aid been sensitive to levels of poverty, or trends in poverty and wellbeing? This question has only ever been asked seriously with reference to countries, not individuals or households. There is significant research arguing that different donors and international agencies have provided financial aid to very different groups of countries. In 2001 some (the Netherlands, the UK and the World Bank) allocated aid to the poorest countries, others allocated aid to small, relatively well-off countries (the US, Japan and the EU), and some lay in between these two positions (France, Germany, and the UN system) (Baulch 2003). Where aid was relatively regressive, this was because it was allocated to relatively well-off, strategically important or post-conflict MICs, or ex-colonies. In the early 2000s no European donor aid to MICs was highly poverty focused (Anderson, Grimm and Montes (2004). It is possible that at least some of these countries have now stopped, or nearly stopped receiving aid. For example, per capita aid to China has been reducing since the 1990s, and several donors have begun discussing phasing out, though the UK is currently the only major donor with a clear exit strategy. However, this suggestion might now be challenged by the finding that a substantial proportion of the world's poor now live in MICs (see section 6 below) (Sumner 2010), following the reclassification of some large low-income countries as lower middle-income. The question will, then, be to what extent is the aid which is and will continue to be allocated to these countries focussed on poor households either directly or indirectly?

There has been no recent detailed comparable statistical analysis of the poverty focus of aid or aid donors, so it is not possible to say whether the pattern remains the same or has changed over the last decade. Given the amount of attention given to the problem of 'fragile states' during the last decade (section 4 below), it might be thought that they at least would have seen increased aid allocations. But the recent OECD assessment concluded that 'Although official development assistance (ODA) to fragile states is growing, it is increasingly concentrated, and half of the fragile states face the prospects of declining aid. The latter, together with countries with highly volatile aid and countries with access to an exceptionally limited number of donors, are three sets of countries warranting particular attention, according to the OECD. What about other providers of cooperation? While global funds and private foundations benefit fragile states only in modest amounts, Arab, Eastern European, South-based partners are a growing source of cooperation' (OECD/DAC 2010a).

A recent study of aid dependence has concluded that 2/3 of the world's poor live in countries where aid is less than 1 per cent of gross national income (GNI), the least aid dependent category of aid recipients. (In high aid countries over 10 per cent of GNI is aid [Glennie 2011].) This is partly because India is included, with nearly half a billion poor people (at US\$1.25 a day) and China too (with about 200,000).

However, such calculations do not actually examine whether aid given goes to poor people rather than poor countries. It assumes that aid going to a very poor country will benefit the poor in that country, which, of course, may not be the case: it could be the opposite if aid supports regressive policies which benefit elites, or allows the elite to avoid taxing its population and therefore developing a more rooted social contract.

If aid to fragile states switches from humanitarian to development modes of operation, it is not clear what the impact will be, since humanitarian aid is not always well targeted at

Box 2: Targeting in humanitarian assistance

Beneficiary consultations often highlighted concerns with how international assistance is targeted. A persistent theme of the Listening project case studies was a sense of unfairness in the selection of beneficiaries. In Aceh, people felt that it would be better for smaller amounts of aid to be distributed more evenly. In Pakistan, the main reason for dissatisfaction with assistance received was the perception of inequity in the aid distribution process. [... elsewhere there was] a disconnect between external (aid) and internal (community) definitions of vulnerability and who deserves assistance, leading to widespread sharing of targeted food aid. In Somalia, for example, [there was] widespread redistribution and sharing of food aid, which limited exclusion but ensured that no-one received very much.

Source: Based on Harvey et al. (2010).

deprived people (Box 2). For example, a recent study of food assistance in Darfur concluded that it was not targeted at food insecure households: ‘The accepted basis of entitlement of food assistance in Darfur is based on group status (IDP, host/resident, rural), not need (food insecurity (Young and Maxwell 2009: viii).

During the last two decades, under the influence of the first 1990 International Development Targets and then the Millennium Development Goals, aid to the social sectors—health and education—has increased significantly, to the extent that there has been something of a backlash. Researchers and some agencies and individual agency officials have argued during the last five years that aid has become unbalanced, that aid to the ‘productive’ or economic sectors has shrivelled. ‘Aid for trade’ has emerged as a way of attempting to redress the balance, discussed below. Aid for micro-finance has also burgeoned, also discussed below.

Given the salience of the MDGs, multidimensional deprivation can be expected to have been well addressed. And indeed this is the case. The 2010 *Human Development Report* reported that, whereas investigations of the GDP gap between rich and poor countries often find it widening, the gap in human development is reducing, narrowing by a fifth between 1990 and 2010. Only in a handful of countries has life expectancy not declined, for example. And even in countries where incomes have declined there has still been progress in human development, if sometimes more fragile. Sometimes this progress is more apparent than real: children enrolled but not remaining in primary schools, or unable to read despite several years in school (UNDP 2010). And it can be argued that the level (as well as the quality) of services being provided to many poor people is simply not enough to help them out of poverty: in many situations children need more than primary school completion to get the kinds of jobs or start the sorts of businesses which will eventually enable them to bring their households out of poverty.

Nevertheless, such progress is clearly very valuable—for itself, but also for its positive long-term economic effects. At least this is something that the aid industry has got right. Things have ‘got better’ in quite *dramatic* ways in many developing countries (Kenny 2011). If there has been a bias in aid, it has been for the good.

The latest expression of this bias to the social sector is the emphasis on aiding social protection. Since the Mexican and other conditional cash transfer programmes began to receive international attention and then acclaim at the end of the 1990s, social transfers have spread ‘like wildfire’, reaching nearly a billion people in 2010. They have spread most in the

least aided countries—a sign of early doubts among donors that the poorest countries should be encouraged to develop social protection policies and programmes, but more recently donors have directly supported many pilot programmes in low-income countries, and have encouraged governments to develop social protection policies, and accepted that these should be part financed through budget or sector support.

The biggest part of the increasing coverage of approaching one billion people by social protection schemes is in middle-income countries (MICs), and the development challenge of the decade is to extend coverage in the lower middle-income countries and the low-income countries (LICs). There is a good evidence base for this: we know that the short-run and long-term impacts are favourable, including those on human development and economic outcomes (Barrientos and Nino-Zarazua 2010); the costs are affordable, as demonstrated by the development of schemes in LICs like Nepal, India (from the 1980s) and Lesotho, although countries which are pressing against the limits of fiscal space may face difficult choices between funding social protection and other social expenditures; in such circumstances there is a risk of revenue diversion. Aid can best contribute to the significant start-up costs of national programmes, but given the centrality of social transfers to the social contract, it is important that they are tax funded. Conceivably aid could provide tapering finance and thus prevent revenue diversion, giving way to tax revenues over a period of time, but national decisionmakers are often rightly sceptical about donors' staying power, and are wary of running out of money for such high profile commitments.

A critique of aid bias towards the social sector has resulted.<sup>4</sup> Clearly, improvements in health and education will not alone drive reduced income poverty, even if they lay the foundation for it. Savings, investment and employment growth are necessary to reduce income poverty and increase standard of living. This bias has been the result of the domination of international development policy by ideological forces opposed to state intervention in the economy, which variously tolerated or encouraged the state to play a role in the social sectors. The Washington Consensus has recently been somewhat eroded, with the publication of numerous influential books and articles which argue for a broader state role in the economy, such as those by Ha Joon Chang and Joseph Stiglitz. But, so far there has not been any new consensus about the economic role of the state. Policymakers have a menu of positions to choose from. At least the new period has opened up debate, notably around how governments and international agencies can encourage pro-poor (or balanced, shared, equitable ... or pro-poorest) economic growth. However, while the OECD/DAC has worked hard to develop operational guidelines on pro-poor growth, including actions to be taken in different sectors or on different issues; UNDP's International Policy Centre for Inclusive Growth has made sterling efforts to lay out the choices between growth which reduces inequality as well as poverty, and growth which 'merely' reduces extreme poverty, and the patterns which underlie these apparent policy choices.

So far international agencies have not thoroughly operationalized the concept, for example, in their country strategies, and few developing countries have taken a serious look at how growth strategies and patterns need to evolve if they are to contribute more strongly to reducing poverty. There are beacon examples where growth patterns *have* reduced poverty very fast: Indonesia (Timmer 2004), China and Vietnam are the obvious ones, but other countries where this is the case over longer periods of time include Korea, Thailand, and Malaysia. These countries have grown their manufacturing as well as their agriculture, as

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<sup>4</sup> For example Killick (2004).

well as their tax revenue systems, and it is this combination which has generally reduced poverty consistently over the decades. Increasingly African and other developing countries look to these countries for inspiration. However, aid has not particularly encouraged, and sometimes strongly resisted, some of the policies which have led to success in these Southeast and East Asian countries. They have all ‘picked winners’ through tax, credit and investment policies; aid officials are typically suspect of such strategies, preferring to leave it to the market. The more stably successful countries also retained or developed capital controls, which, again, donor agencies have been keen to avoid. And education has been supported from top to bottom, without an undue emphasis on primary.

One popular way of getting aid back into the economic sectors since 2000 has been ‘aid for trade’, projects and programmes supporting the development of physical infrastructure (roads, power and water supply) and institutions (regulatory, justice) which promote trade. Issues like meeting international standards, addressing market failures in value chains, building human capacity to support trade in both public and private sectors have now benefit from around US\$40 billion of aid a year, up significantly since 2005 (OECD/WTO 2011). Whereas at first little went to the least developed countries (LDCs), now almost one-third does. However, although the aid-for-trade documents talk about poverty reduction being an objective of aid for trade, little work has been done to measure whether this is indeed the case. Aid-for-trade recipients (developing country governments) view it as contributing to higher short-term trade. It is only some donors who expect aid for trade to contribute to growth and poverty reduction (*ibid.*: 97). Few responses to the AfT questionnaires distributed to governments and donors think that it is reducing poverty, or contributing to gender equality. Interestingly, just as few think it is contributing to export diversification, which we know is an important means to poverty reduction in many contexts. A few more responses were positive about its impact on trade as a whole, but most participants see it as producing outputs (more resources, better capacity) rather than development outcomes (*ibid.*: 105).

While the links through to reducing poverty are generally attenuated through the trade route, it is equally the case that, for example, poor people in the poorest countries benefit dramatically from solid incorporation into dynamic export sectors. Much poverty in Ghana has been reduced through the economic development which has occurred in its cocoa belt, and Ghana’s ability to take advantage of its current favourable insertion into the world cocoa economy has arguably considerably helped the poverty reduction potential of its now impressively stable growth. Its other bases of growth—timber and gold—have not had such progressive distributional effects, except through revenue enhancement. Cotton has been a crop which has also contributed to growth which can benefit the poor at least during episodes of high global prices, as witnessed in Africa (Moseley and Gray 2008). Coffee has also had such effects, for example in Uganda in the 1990s, and historically tea and coffee played the same roles in Kenya. So aid for trade should be able to contribute significantly to pro-poor growth. The problem is that such commodity based successes tend to have been short-lived, and need to be used to diversify economically to sustain pro-poor growth; this is what the Asian economies have done so well. So far little effect of AfT on economic diversification has been noticed, according to the OECD/WTO review.

A less popular, but increasingly present trend has been aid to the private sector, something which USAID has long practiced, building up a somewhat undigested expertise on value chain development and support to private companies. Until recently, this has been largely blind to issues of poverty and distribution, but the renewed efforts of a group in USAID to change this may be about to bear fruit (see section 7 below). There has been a movement to

‘make markets work for the poor’, whose outcomes are uncertain as yet. Action-research on poverty and value chains has suggested that poor rural people can ‘significantly increase their returns from agricultural activities by upgrading themselves in value chains ... without negatively impacting on the environment. ...Enhancing the position of women through value chain upgrading is also possible, but requires a more nuanced and sophisticated approach to upgrading than has been followed hitherto’ (Mitchell and Coles 2011: 257).

Social protection offers a bridge between the social and economic sectors, as far as aid is concerned. It involves ‘social transfers’, and is implemented through ‘social’ agencies, but its effects can be economic as well as social. It is capable of reducing the depth of poverty – raising the poorest to the poverty line, and enabling them to take advantage of opportunities, save and invest, which would otherwise have been difficult (Barrientos and Scott 2008). In this sense it helps a country develop a pro-poor growth strategy, enhancing the capabilities poor people have which enable them to participate in and, critically, benefit from growth. At the same time it enables children to remain in school for longer and learn faster, women and children to make more use of maternal and child health services, and children to be better nourished. And the long-term benefits, in terms of participation in education and labour markets, are only just beginning to appear as children who have benefited from the oldest programmes emerge onto the labour market (Barrientos and Nino-Zarazua 2010). But, as we have seen above, social protection has developed mainly in MICs: the political challenge is to learn from this experience in rolling out social protection in poorer countries.

So, where do we stand on this particular balance sheet? (i) We do not know whether aid as a whole, or particular donors have become more or less pro-poor in recent years: the work has not been done. This is an indictment of the aid industry’s lack of interest in the question—this work should be commissioned on a regular basis. (ii) The social sector focus of the last two decades has been positive for the poor, but it has also been limited in its depth: it has focused on primary education and health services, expansion as well as quality; whereas there is now plentiful evidence that escaping poverty increasingly requires access to post-primary education, and accessible health referral services are needed to stop the descent into poverty. Social protection is helping poor children access the fuller range of services they need. (iii) While it is now widely acknowledged among donors that aid to the economic sectors is legitimate and valuable, there remains an absence of clear direction among donors on shaping growth processes so that they deliver poverty reduction faster. This reflects the continued highly contested nature of economic development in the twenty-first century, and the continuing prevalence of anti-state ideologues in the ruling parties (if not aid ministries) of several major donor countries and shareholders of international financial institutions (IFI), as well as the ministries of finance and planning in some developing countries. Aid for trade is a cautious exploration of this territory, but seems to represent a rather eclectic bundle of activities and not a clear support to poverty reducing economic development; (iv) Donors have cautiously put their toes in the social protection stream, which is capable of strongly linking social and economic investments to the benefit of the poorest people, but again, there is no major collective thrust forwards as yet. This would probably need to be steered by reference to reducing vulnerability in the post-2015 development framework. In order to address the *economic* aspects of poverty, it will be necessary to develop a more evidence based, less ideologically driven approach to economic policy in developing countries. This applies especially to the poorest countries; see section 5 below.

So, it is not a case of ‘glass half empty, glass half full’: there is a long way to go before we can say with confidence that aid is as poverty focused as it can be.

#### 4 How do the poorest feature in aid strategy documents?

An extensive survey of international agencies' strategies, reports and evaluations made for this paper examined how discussion and strategies have changed since 2005. The following bi- and multi-lateral agencies were included: AusAID, CIDA, DFID, the EU, Finland (Ministry for Foreign Affairs), Germany (BMZ), JICA, SDC/SECO, UNICEF, USAID, the USA more widely and the World Bank. Missing so far in the analysis are the important regional development banks, as well as a wider array of UN agencies. The DAC was also included. Of these, the DAC, the EU, Germany (BMZ), USAID and the USA already had 2005 profiles drawn up to which 2010 profiles were added.<sup>5</sup> For the others, progress has been assessed based on recent documents only. The survey included strategy documents, in some cases by country and operational area, evaluations, and annual reports. Word searches were carried out using the following keywords derived from the conceptual lexicon of the Chronic Poverty Research Centre, as an example of up-to-date thinking on poverty analysis and policy: *poorer, poorest, severe (ly poor, poverty), food poor, chronic, dimension (for multidimensional poverty), powerless, marginaliz(ed, ation), minorit(y, ies), discriminat(ed, ion), exclu(ded, sion)*. The analysis focused on evaluations as well as intentions, since evaluations home in on the outcomes and impacts an agency is seeking. Change in evaluation questions was often more marked than changes in strategy.

The results are extremely mixed, ranging from consistently oblivious to consistently highly sensitive to this range of issues related to poverty. Broadly speaking, while there was little disaggregation of poverty, and where there was more by depth/severity than duration, social exclusion was more often recognized and addressed. Some agencies had 'gone far' with these concepts; others remained 'stuck' with merely focusing on vulnerable groups, and that often not systematically, or targeting poor areas or regions as an easy approach to disaggregation. Gender was not included in the list as it was found that gender issues have been substantially taken on board by all these agencies, which commonly support the empowerment of women and are committed to better gender relationships as a foundation for development.

In terms of policy initiatives, the interest and commitment to social protection and especially cash transfers are now widespread, with growing resource commitments; a few agencies were giving more attention to fragile states in their resource allocations and thinking; some were also more focused on food security or employment than five years previously.

##### 4.1 Disaggregation of the poor

This has often been weak even where policy is encouraging; this is also true of developing country Poverty Reduction Strategies (Grant and Scott 2010). Depth of poverty was commonly discussed, often motivated by the MDG reference to extreme poverty. Vulnerability was also a common term, used prominently by AusAID, DAC, DFID, the EU, Finland, JICA, UNICEF and the US. In the cases of AusAID, UNICEF and the US, this is a development since 2005. References to the 'socially excluded' also helped to pick out groups of the chronically poor: DAC, DFID, Finland, UNICEF and the US all made use of this term. DFID has included a question in its evaluation matrix: 'What higher level results did DFID's programmes achieve and how were these differentiated across target and excluded groups?'

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<sup>5</sup> This survey was originally done to assess the influence of the Chronic Poverty Research Centre on donor agencies.

and evaluation criteria include: 'Coverage: which groups are included in/excluded from a programme, and the differential impact on those included and excluded. Related concepts include equity (including gender equity and disability) geographic and social exclusion. How successful has the programme been in mainstreaming cross-cutting issues such as gender, HIV/AIDS and the environment/climate change?'

Duration of poverty was not considered by any of the agencies surveyed; the only use of the term was a reference to duration as an important dimension of food insecurity by the EU in their Food Security document. The term 'chronic' was rarely used by agencies: the EU, DFID and UNICEF all made use of it in one piece of literature, but it did not appear systematically or feature in their annual reports. The US made reference to it in an extremely promising section on social security in their Strategy Document 2007-12.

## **4.2 Disaggregation by social group**

Several agencies have focused on one of the social groups associated with chronic poverty. Of these, the most widespread focus was on women and gender relationships. No agency surveyed failed to draw gender distinctions, and many identified it as a key strategic area or cross-cutting theme. Other socially excluded groups were identified in some cases:

- Minorities excluded by ethnicity or language were identified as a vulnerable group by Finland, UNICEF and the US. JICA made a promising start on this in their latest report.
- Disability has been brought out as an issue causing exclusion by AusAID, Finland, JICA and UNICEF particularly. In the case of AusAID and UNICEF, this is a development since 2005.
- The spatially remote were of particular concern to AusAID. Elsewhere although the occasional geographically-targeted policy would often be cited, nothing systematic was included.
- The elderly were largely overlooked, except by Finland and the US.

## **4.3 Policies addressing severe and chronic poverty**

The policies which address severe and chronic poverty have been outlined in several CPCR publications, including the second international *Chronic Poverty Report* (CPCR 2008) and the Centre's key messages for policymakers (Shepherd and Scott 2011). These are given in the following table.

Cash transfers or social protection more broadly have been the most prominent policies addressing chronic and severe poverty in recent agency literature, notably from DAC, DFID, EU, Finland, Germany, UNICEF, USA and the World Bank. In the cases of DAC, EU, the USA and UNICEF, their recent prominence is a development since 2005. The idea that social protection might protect the vulnerable from shocks is now present in the thinking of the DAC, Finland, UNICEF, the US and AusAID where it was not before.

Awareness of gender issues has broadly translated into encouraging gender related policies. In particular, education has received attention (for example, from the EU, Finland, USAID and the World Bank). The picture on reproductive health is highly mixed: while some, such

as DFID, feature it more prominently than before, CIDA and the DAC have in fact removed what place it had. Consistently, and unsurprisingly, a strong MDG focus tended to improve attention to this issue.

Concern for ethnic minorities and the disabled has influenced education policy more than any other area, as in the cases of Finland, SDC/SECO and UNICEF. A concern for spatial remoteness is most commonly addressed by policies providing health or education personnel in remote areas.

Primary education still largely dominates the education discussion, but varying degrees of interest emphasis on post-primary are present in the documentation produced by AusAID, Germany, the EU, UNICEF and USAID. In all, five agencies (CIDA, DFID, EU, Finland and the US) consistently displayed no or weak interest in secondary education, while two (AusAID and DAC) actually decreased reported attention to the issue. Improvers included Germany, SDC/SECO and UNICEF, while JICA and the World Bank displayed consistent awareness of the need to consider post-primary.

The provision of water and sanitation has been consistently strong across the majority of agencies.

Table 1: Policies addressing severe and chronic poverty

Policy	Description
Education and health	<ul style="list-style-type: none"> <li>– Inclusion of the ‘hard to reach’ in current services.</li> <li>– Provision of post-primary education and referral health services.</li> <li>– Achievement of commitment to universal access to reproductive health services.</li> </ul>
Social protection	<ul style="list-style-type: none"> <li>– Cash transfers, including pensions, child, disability and other allowances, income targeted transfers, employment guarantees.</li> </ul>
Pro-poor economic growth	<ul style="list-style-type: none"> <li>– Taxable growth, to allow economic and social service delivery.</li> <li>– Quality job creation – enhanced employment elasticity, in tightening labour markets, with improving labour standards and consumer awareness on labour conditions.</li> <li>– Achieve synergies between asset accumulation, protection and market/value chain development through linked policies and programmes.</li> <li>– Targeting young people and chronically deprived regions.</li> </ul>
Social policies for a ‘good society’	<ul style="list-style-type: none"> <li>– Anti-discrimination and secure rights for the poorest, including inheritance and marriage laws and practices</li> <li>– Decent work</li> <li>– Gender equality, especially women’s rights to own or access property secure</li> </ul>

Source: Based on Shepherd and Scott (2011: 37-48).

#### 4.4 Analysis

This analysis suggests that there has been some progress on social policies, but that this is mixed, for example, on post-primary education, where some agencies have given it more



emphasis, while others have given less. It is only on social protection where there seems to have been increased interest and commitment virtually across the board.

There is less progress in other areas of policy, such as economic growth. Exceptions would include: a growing interest in employment, but not specifically of the poorest; but agencies (and the economics profession) have difficulty in knowing what to do about informal employment, as they are reluctant to get into any labour market measures which may reduce incentives to create jobs. The belief that any job is better than no job remains prevalent, despite evidence that many jobs barely enable survival. Reconciling job quantity with job quality is a major issue for the development of pro-poor growth strategies going forwards. Another exception is the investment USAID has consistently made (against the trend) in agriculture and infrastructure, and the development of markets and value chains (see section 7). But outcomes have not generally been well disaggregated in this work, either in design or evaluation.

The disaggregation of poverty has received little systematic attention from donors, except for selective, but somewhat random ‘adoption’ of vulnerable groups, which many agencies have done. Some are seemingly random (but may have to do with effective lobbying), such as AusAID’s enthusiasm for aiding the disabled, but some follow from a coherent perspective: for example, Finland’s 2005 equality based approach, or JICA’s human rights focus, and the concern from the DAC for pro-poor growth. An MDG focus produced mixed results, prioritizing depth over duration, but directing agencies towards desirable positions on gender parity, water and sanitation and reproductive health. Likewise there has been no progress on considering duration (or poverty dynamics). AusAID is keen to include socially excluded groups but makes no mention of social protection, and thus leaves prevention uncovered. All disaggregation is encouraging, but without an overarching analysis to make use of the results, agencies are failing to provide coherent plans of attack.

## **5 Aid to LDCs and fragile states**

A large proportion of the world’s poorest people live in LDCs or fragile states. The rate of ‘turnaround’ of the latter has been slow; conflict-affected societies tend to have great difficulty shaking off their conflict-proneness; and few LDCs have ‘graduated’ from that status—though it should be noted that graduating is more difficult than becoming eligible for that category.

In 2010 there were 40 non-small island LDCs. During the period 2006-09, 34 of these were in the ‘low human development’ category and one would have been had there been data (Somalia), three were at the lower end of medium human development. Of the 34, 14 countries had experienced major conflict during 2000-10. This, however, leaves 20 which did not. These were mostly major developing countries with large populations and large numbers of poor people. One could expand this list by including all non-conflict affected LICs: this gives a total of 25 countries with a population of half a billion people of whom 250 million under the US\$1.25 poverty line (more would be under a US\$1 line, of course).

Table 2: Low-income countries, population, population in poverty and conflict episodes

	Population 2010	Poverty ratio latest during 2000s (\$1.25)	Number of poor (approx)		Author's assumption on poverty ratio
<b>Countries with no large-scale protracted violent conflict during 2000-10</b>					
Bangladesh	162,220,762	49.64	80,526,386		
Benin	8,934,985	47.33	4,228,928		
Burkina Faso	15,756,927	56.54	8,908,967		
Cambodia	14,805,358	28.27	4,185,475		
Eritrea	5,073,279		1,521,983		30
Ethiopia	82,824,732	39.04	32,334,775		
Gambia, The	1,705,212	34.34	585,570		
Ghana	23,837,261	29.99	7,148,795		
Guinea	10,068,724	43.34	4,363,785		
Guinea-Bissau	1,610,746	48.83	786,527		
Haiti	10,032,619	54.90	5,507,908		
Korea, Dem. Rep.	23,906,070		7,171,821		30
Kyrgyz Republic	5,321,355	1.90	101,106		
Lao PDR	6,320,429	33.88	2,141,361		
Madagascar	19,625,030	67.83	13,311,658		
Malawi	15,263,417	73.86	11,273,560		
Mali	13,010,209	51.43	6,691,150		
Mauritania	3,290,630	21.16	696,297		
Mozambique	22,894,294	59.99	13,734,287		
Niger	15,290,102	43.09	6,588,505		
Rwanda	9,997,614	76.79	7,677,168		
Tajikistan	6,952,223	21.49	1,494,033		
Tanzania	43,739,051	67.87	29,685,694		
Togo	6,618,613	38.68	2,560,080		
Zambia	12,935,368	64.29	8,316,148		
<i>Total</i>	<i>542,035,010</i>		<i>261,410,988</i>		<i>25 countries</i>
Author's assumption on poverty incidence					
<b>Countries with large-scale protracted violent conflict during 2000-10</b>					
Afghanistan	29,802,724		0	15,000,000	50%
Burundi	8,303,330	81.32	6,752,268	5,490,944	
Central African Rep	4,422,397	62.83	2,778,592	1,745,789	
Chad	11,206,152	61.94	6,941,091	4,299,311	
Congo, Dem. Rep.	66,020,365	59.22	39,097,260	23,153,397	
Kenya	39,802,015	19.72	7,848,957	1,547,814	
Liberia	3,954,979	83.65	3,308,340	2,767,426	
Myanmar	50,019,775		0	20,000,000	40%
Nepal	29,330,505	55.12	16,166,974	8,911,236	
Sierra Leone	5,696,471	53.37	3,040,207	1,622,558	
Somalia	9,133,124		0	6,500,000	70%
Uganda	32,709,865	28.67	9,377,918	2,688,649	
Zimbabwe	12,522,784		0	7,000,000	60%
<i>Total</i>	<i>302,924,486</i>		<i>95,311,607</i>	<i>100,727,127</i>	<i>13 countries</i>

Source: Authors' calculations based on WDI data.

There are several theories which might account for the failure of LDCs to develop, and for fragile states to turnaround failures which underlie growing global inequality:

- the poor performance of international aid and military assistance;
- the failure to reform global institutions and governance in favour of the poorest countries;
- the failure of conflict prevention; and
- fundamental national political failures to develop robust political-economic settlements.

Underlying the international dimension of such failures has been an absence of disaggregation and differentiated responses to these large categories—LDCs and fragile states. The response to LDCs has been basically commitments of additional aid and trade preferences for their exports. The response to fragile states has been manifold and disorganized, but largely focused on building the capacity of the state, and often principally in three areas: macroeconomic management, health and education—these being the areas favoured for public action by the Washington Consensus.

### **5.1 Reluctance to reform global institutions in favour of LDCs**

The organization of global governance has not been significantly reformed to make it a more comfortable world for LDCs. WTO trade rules, the operations of the IMF and World Bank, negotiations over climate change responses have all been structured without paying much attention to their interests, and with relatively little input from them. There are real issues of importance to LDCs in all these global governance processes: fair and steady prices for the raw materials they mostly trade into world markets; flows of finance on reasonable and manageable terms; and rules on pollution and carbon emissions which recognize LDCs' largely positive contributions. But none of these have been forthcoming. Commodity prices have, if anything, become more volatile; it is the growth of consumption and export manufacturing in Asia which has structurally driven prices up. It is not clear that this will be sustained in the long term, though it appears as a long-term trend now. The WTO rules have produced little of benefit to LDCs, although there may be a move to get redress from the US over cotton through its dispute resolution mechanism. Finance is largely loan, and one debt crisis largely solved through the Highly Indebted Poor Countries programme may well be followed by another if countries have to borrow to meet high fuel and food import bills again. And LDCs have hardly had a look in on the Clean Development Mechanism. It remains to be seen what will happen to adaptation funding.<sup>6</sup>

The LDCs have rather had to depend on the crumbs which have in practice come from the decadal negotiations at the UN LDC conferences: the 2001 Brussels Plan of Action; the 2011 Istanbul Plan of Action. The Brussels Plan was widely held to have failed by participants at the 2011 Istanbul conference. The impact of trade preferences given to LDCs has been very small or even negative. LDCs have received a greater share of aid than they did twenty years ago, although not up to the 0.15 per cent of developed country gross national income agreed in 1990; and there is a debate about whether it is the characteristics of LDCs (small population, low income countries are likely to receive more aid than other developing

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<sup>6</sup> This is the authors' assessment, based on attending the 2011 UN LDC IV conference.

countries, other things being equal) rather than their LDC status which has led to the larger aid volumes. Aid, of course, in some assessments is the last thing which LDCs should want, as it is associated with low growth and increased poverty (Moyo (2009)). Putting this argument on one side for the moment, the argument is that aid allocation formulas need to be revised to take into account the structural obstacles to development faced by some countries: notably the economic vulnerability and low human assets which define the LDCs. There are indications that aid helps LDCs become more resilient, as it counters the global economic and other shocks to which LDCs are vulnerable, even if the evidence on its impact on growth or poverty is more difficult to interpret. There is also some evidence that aid is more effective in LDCs than elsewhere (Guillaumont 2011). Given the results showing convergence on health and education indicators reported in the 2010 *Human Development Report*, it would be surprising if aid has not helped LDCs in this respect.

Has it also helped them become structurally less vulnerable in the world economy? There are special multilateral funds and technical assistance devoted to this. This is hard to assess (Guillaumont 2011); but one failure apparent at the Istanbul conference was the fact that LDCs had hardly accessed the special LDC fund under the UN Framework Convention on Climate Change, managed by the Global Environmental Facility.

## **5.2 Poor performance of international aid, including military**

All conflict-affected LICs, by contrast, have a population of 300 million, of whom 100 million are poor. The massive and still growing global attention to the problem of conflict-affected states is, of course, justified in itself: conflict is a huge problem not just for those experiencing it now, but for neighbours, and in some cases the wider world. But, because of these spillover effects, there is a danger that the non-conflict affected countries, where it is (or should be) easier to make progress, are or will soon be neglected in terms of development thinking if not aid or presence in international negotiation fora. In fact, in terms of aid flows, in 2009, official development assistance to fragile states increased in real terms by US\$3.8 billion (+ 11 per cent) to US\$40.5 billion. This represents a third of all aid flows to developing countries in this same year and accounts for 36 per cent of the total increase in ODA between 2008 and 2009. However, 51 per cent of aid is benefiting just six of the 41 countries in 2009 (with 23 per cent of the population of fragile states), while 15 fragile states witnessed absolute declines between 2008 and 2009. A similar trend can be seen among bilateral donors beyond the DAC, where a reported US\$1.1 billion in aid (20 per cent of the total) went to fragile states in 2009, but where 60 per cent went to just three fragile states (OECD 2010a). The six states included Afghanistan and Iraq, and were all conflict affected with the exception of Ethiopia.

Figures 1a and 1b show a dramatic concentration of aid volumes and aid per capita—and emphasize just how inequitably aid is distributed around the world. This is not new information.<sup>7</sup> However, it does strongly suggest that there is a group of very poor, in many cases politically fragile countries, where the international community is simply not taking poverty seriously. In all these neglected societies there is an urgent need for greater investment in infrastructure, economic services, human development, social protection, context specific measures which will promote social cohesion, in addition to all important

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<sup>7</sup> See section 10.

Figure 1a: Net ODA to fragile states (excluding debt) remains concentrated, 2008

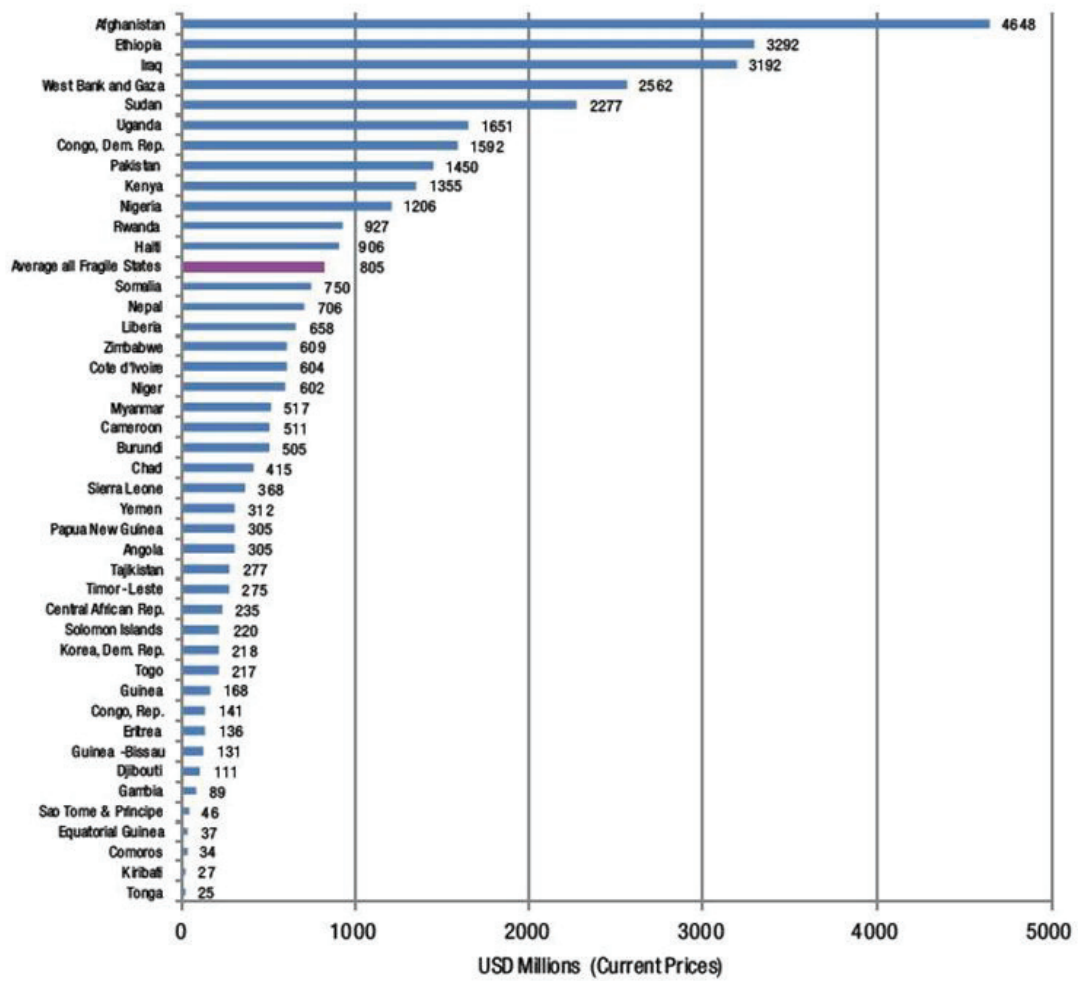
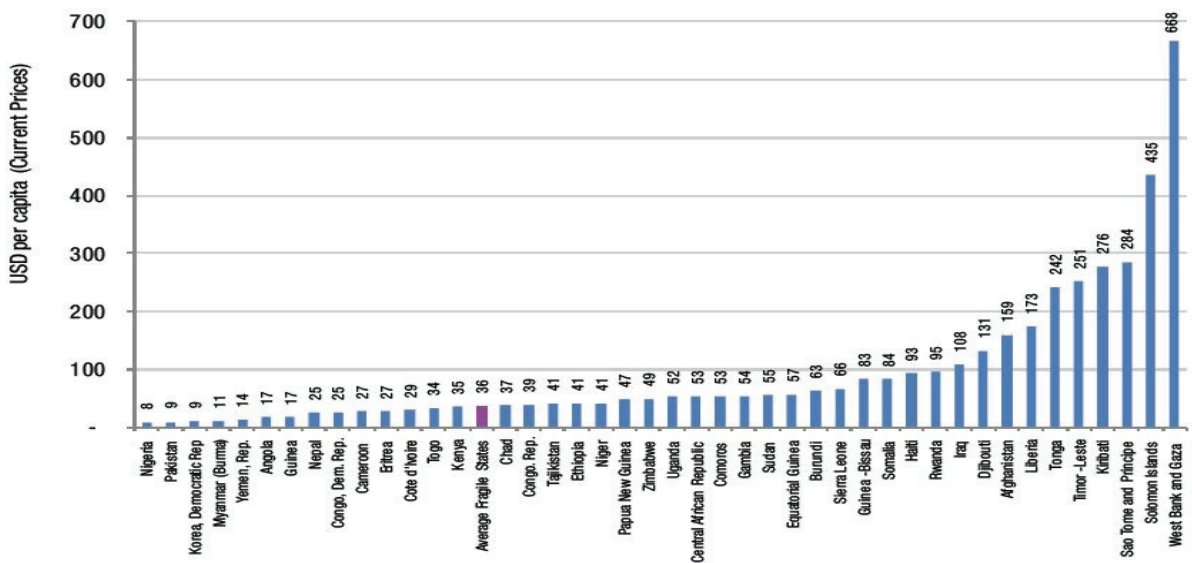


Figure 1b: Net ODA per capita, 2008



Source for Figures 1a and 1b: OECD (2010a)

### Box 3: The errors of international engagement in Afghanistan

Civil war usually accelerates an advanced process of decay, leading to state collapse or state failure. If war continues for a long time, institutions are further destroyed (not just weakened), and the disappearance of educational systems has a particularly strong impact. Afghanistan's decline is of course long and complex. Since 2001 it has been linked with Pakistan's ambitions in the country as well as domestic policies and a mafia system which has corrupted the regime. For reconstruction real financial resources are needed. In Afghanistan there has been a massive imbalance between the resources provided for military and development actions (US\$230 billion for military, compared to less than 15 billion for development). Much of the aid was tied. There was no strategy to drive the reconstruction effort and the early military presence was totally inadequate to the demands of the territory. There was a failure to reconstruct Afghan governance and provide personal security at the beginning, in what was described as a 'light footprint' option. The 25 military provincial reconstruction teams run by 13 different countries started late and have performed poorly: there has been a lack of coherence—there is no 'pilot' in control of aid, so that aid did not respond to obvious priorities like reducing the isolation of rural communities; rapid turnover of military units; and decisions have been made by military people not trained in development. Many countries have not provided their teams with adequate funding. Local governance was not strengthened alongside these teams, and the teams have become permanent features, rather than giving way to capable Afghan organizations.

By comparison, for the reconstruction of the rural areas only the Ministry of Rural Rehabilitation and Development (MRRD) was actually created with traditional aid funding. In less than a three-year period, the MRRD, developed and managed by a minister demonstrating both charisma and managerial capacities, functioned as a modern and efficient institution and effectively covered the entire country. But its activities were underfinanced, which was the case even for the remarkable programme it quickly established, the 'National Solidarity Programme', which still provides small grants to over 17,000 local communities...[facilitating] the creation of development committees which manage these grants', the beginnings of local democratic institutions. These could have been set up much earlier with advantage. Stronger local institutions could have competed with warlords for loyalty. Broader civil service reconstruction has been hampered by shortage of resources, for example, to pay decent salaries at a cost of a fraction of the cost of technical assistance.

The international community has failed to invest in the alternative military as well as civil structures to underpin their position. The donor chaos suggests that unruly donors need a manager, capable of articulating a balanced development strategy, investing, for example, in agriculture and rural infrastructure as well as health and education. The excellent Paris/Accra principles for aid effectiveness have not been followed. The solution is coordination by a representative of the UN Secretary General, supported by a World Bank technical team.

Source: Based on Michailof (2011).

security. The world probably needs to see the volumes of aid delivered to the six conflict-affected countries repeated around the world to make a substantial difference. This is not a marginal increase. It would involve: bilateral countries achieving their 0.7 per cent of GDP commitments, focusing 90 per cent of their aid on these countries (and possibly India, see

below), and much greater multilateral investment. Could the countries absorb such volumes of aid usefully and without creating ‘Dutch disease’? That is a good question. The same question applies to countries acquiring substantial mineral resources: Uganda, for example, with its discovery of oil. In both cases we know that having substantial revenues for which governments may feel they do not have to account to their citizens is a dangerous situation. In the case of either aid or mineral revenues, if they are on-budget, and budgets are scrutinized by parliaments, then that is at least a start.

When international forces intervene militarily and take over the security of a state, the onus of reconstruction becomes clearly international (Afghanistan, Bosnia, Iraq; Libya to a lesser degree). In other cases foreign governments and international agencies may be involved in brokering a peace, and may also get involved in supporting national reconstruction efforts (Liberia, Sierra Leone, South Sudan). When states are in a collapsed or failed condition, reconstruction is very difficult and there are gaps to be filled on all sides. Finding the political motivation for the long haul of reconstruction is difficult, however, and only the efforts on the European periphery, where the European political motivation is clear, have been adequate. This bodes well for future reconstruction following the ‘Arab Spring’ uprisings of 2010 onwards.

A powerful analysis of international engagement in Afghanistan has argued that the mistakes made by the international community there are not unique, but can be seen elsewhere too, as in DRC (Box 3). Clearly the situation in Afghanistan, with its long history of international intervention, was incredibly complex. However, there were plenty of previous experiences to learn from.<sup>8</sup>

### **5.3 Failure of conflict prevention**

Conflict being such a major cause of impoverishment, chronic poverty (Shepherd and Scott 2011: 35), and an obstacle to progress, and given the prevalence of conflicts (major violent conflicts in 30-40 countries today) conflict prevention would seem to be a substantial global and regional, as well as national, priority. Since post-conflict societies are liable to slip back into conflict, that is one clear focus. How does the world do on this? Afghanistan has had lots of attention, and the failures to prioritize and rebuild security, and coordinate a very focused and prioritized spectrum of development activities have already been mentioned. A recent evaluation of aid for conflict prevention in South Sudan between 2005-10 pointed to the need for much greater rigorous conflict analysis and acting on the sources of conflict—land issues, inter-ethnic disputes, and disaffected youth—rather than assuming that it is the lack of development which causes conflict. Failure to do this, together with the repeated failure to build security first, and good but uncoordinated and unstrategic peace-building efforts by NGOs have meant that tensions have not visibly reduced in South Sudan since the 2005 Comprehensive Peace Agreement with the North (Bennett et al. 2010). South Sudan’s stability as an independent country will be critical for development: it has oil revenues which it can use to grow and eradicate poverty in a short period, but fragile relationships between groups, and an ever present history of deeply embedded conflicts within the south (as well as with the north) will mean that relapse into conflict could be incentivized by the oil revenues.

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<sup>8</sup> See, for instance, Harris (1999).

More broadly, given that low-income countries generally are more likely than others to witness conflict, have national plans or poverty reduction strategies (PRSs) adequately recognized the dangers? This is unlikely. A review in 2005 found that post-conflict PRSs barely adjusted poverty diagnostics for the conflict context, and were weak on explicitly addressing conflict prevention. Post-conflict countries' plans have been very patchy in addressing the causes of conflict (Fruchart, Wam and Webster 2009).

One way of predicting conflict is to look at conflict 'hot-spots' and possible spillovers:<sup>9</sup> this is one among several disposing factors, but a very significant one. Others are low national income, high dependence on primary commodity exports, political instability (transformation of the state structure, or breakdown of law and order), restricted civil and political rights, militarization, high defence spending as a ratio of national income and a large army as a proportion of population, the availability of arms among non-state actors, ethnic dominance of state institutions or the economy, high youth unemployment (World Bank 2005). A further factor could be the existence of unresolved local level disputes or conflicts over resource access. Sudan, for example, had a history of continual inter-ethnic disputes over grazing, water and farmland in western Sudan stretching back decades before western Sudan was engulfed in civil wars.

There are forecasting models which claim significant accuracy in predicting conflict: the work of the Political Instability Task Force, for example. A recent model-building exercise accounts for the outbreak of political instability with a high degree of accuracy. While infant mortality, discrimination, bad neighbourhood effects do matter, it is the role of political institutions which is paramount—which, the authors of the Instability Task Force report suggest, is good, as these may be more amenable to rapid reform than some of the other factors. The authors also conclude that political systems combining partial democracy with high levels of factionalism are particularly likely to give rise to instability and conflict (Goldstone et al. 2010). Regional organizations have begun to use such models and have a useful oversight and early warning role, though member governments may not have the incentive to listen to the warnings issued. However, there is as yet no evidence that this sort of work has been used for conflict prevention. Policymakers in the US complain that the predictive work does not tell them what to do.<sup>10</sup>

#### **5.4 Surplus populations and fragile societies**

A Marxist explanation for the global neglect of large populations' basic needs, which include security, is that the populations of poor countries are largely surplus to the requirements of the global capitalism, and therefore do not require protection or safety nets. This idea has a long pedigree (Duffield (2007: ch 1), but the kernel of the idea is that whereas the populations of capitalist countries gets protected collectively through welfare systems, in poor countries it is community and family which have to assure these, and international humanitarian assistance which comes to the rescue when all else fails. However, the extensive promotion of social protection in middle- and latterly low-income countries by international agencies during the last decade would seem, at least, to question if not dispel this theory. The obstacles to getting social protection into national policy agendas are more political and ideological than financial (CPRC 2008). The international policy environment is

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<sup>9</sup> This has been done for inter-state conflicts (Brathwaite 2010).

<sup>10</sup> Personal communications with Monty G. Marshall, George Mason University, Washington, DC.



undoubtedly critical to the extent this can be done. Aid has faced significant retrenchment in the current debt crisis, and with the changing political governments in many aid giving countries, the potential to develop welfare systems in poor countries will also be reduced, given the competing goals which are politically more palatable: investment in private sector development, for example.

This theory might well also help explain why the world has remained fixated for so long on providing only primary education, when it is clear that this is not enough to take poor people out of poverty, or develop significant productive capacities. However, this also has to do with the perceived self-interests of economic elites in developing countries themselves, who do not see the need for a more educated (or protected) population.

A related mode of thinking, explored in the 2011 *World Development Report on Fragile States* is that it is fragile societies which are the problem, rather than, or as well as fragile states. The idea here is that states are not shielded from the societies (and histories) they are embedded in. Societal dynamics affect states through politics, civil society, and the values and norms which spill over into the actual functioning of the state. Society can get 'stuck' in a low level equilibrium; what is required is a convergence of interests (social cohesion) which persists over time, is widely shared, sufficiently inclusive and is underpinned by a degree of shared meaning. Convergence can be symbolic, social or material. Convergence requires connection rather than disjuncture between formal and informal systems. For example, if people rely entirely on 'informal' systems of conflict resolution; or if formal systems of justice pay no attention to the widespread use of informal institutions. The critique of this position is that it is the state, and the politics surrounding it, which has to create the power to make society less fragile. States need to be built, certainly, but in ways which will not simply lead to greater extraction and oppression of vulnerable people.

## **5.5 Fundamental failures to develop poverty eradicating political-economic settlements in countries**

So, we are back to the positions adopted by developing country elites. In an era where policies can no longer be imposed by western powers and international agencies, these elites are acquiring significantly more room for manoeuvre to decide national policies.

The big lesson of this analysis would seem to be that development of the poorest states is both an economic and a political matter, but these two issues are addressed by almost entirely separate institutions, mechanisms and discourses. Supporting LDCs and fragile states both economically *and* politically is critical, and for this an integrated analytical approach and understanding is needed. There are instances where this has been developed: the 2009 LDC Report on governance (UNCTAD 2009), or the analyses of fragile states which emphasize the failure to develop economically. But these are rare; and the actions pursued from these two separate discourses are distinct: removing the obstacles to economic growth, and building state capacity. As the UNCTAD LDC Reports have emphasized, LDCs are unlikely to prosper economically without substantial state capacity to direct the economy.

The 2010 *Least Developed Countries Report* proposed a new international development architecture for LDCs. However, such a goal needs to bring together the political and economic discourses and public actions, at national as well as international levels. This would take as a starting point that post-conflict LDCs are vulnerable to new conflict, and that the

political stability they need to progress economically and socially is as important as the economic stability the LDC ‘movement’ has been seeking.

Aid probably has a limited future. It should be finite: 20 years of aid at significantly higher levels, directed at the dual purpose of graduating LDCs from both political and economic fragility, and eradicating absolute poverty. Financial aid will remain useful, but probably one of the less important aspects of international relations. More important are the terms of trade, insurance against global and other major shocks, an appreciation that development progress can come through different types of regime, and different forms of state and state-society relations. This means: whole of government approaches. But above all, it requires unprecedented global leadership, of the sort displayed by the USA after the Second World War. Current global institutions have been unable to deliver this sort of broad opportunity for fragile LDCs. A new international architecture is certainly required. But that has to be underpinned with much greater priority and attention to these issues, among the many that pre-occupy world leaders. It is difficult to see that emerging from Europe or the USA currently.

## **6 Aid to MICs**

More absolutely poor people now live in middle-income countries than in low-income countries. This is because of the progressive reclassification of low-income as middle-income countries, as their GDP grows. So, for example, Nigeria and Pakistan have become MICs; so have more stable India and Indonesia. The fragile and conflict prone states which have received so much international attention do include a billion people (Collier’s Bottom Billion), but only 300 million of these are poor, or 27 per cent of the world’s poor. Seventy per cent are elsewhere—in nonfragile/conflict affected LICs and MICs. This amounts to 960 million people, 850 million of whom are just in five large countries: India, China, Indonesia, Nigeria and Pakistan (Sumner 2010).

This has deeper implications. MICs should be better able to look after their poor populations, to develop inclusive social contracts, and the taxbases to finance their own development. Clearly the extent to which this is true will vary—with India and Indonesia having more competent government than Nigeria and Pakistan, though in India this is enormously variable, state to state, with some states conflict-affected or fragile.

There is, on the surface at least, less justification for giving financial aid to MICs, or at least it should be expected that it will tail off. Other sorts of aid, technical assistance, for example, may remain important, and may remain a reason why MICs continue to receive financial aid too, even though they need it less or not at all. So, in an evaluation of the African Development Bank’s and IFAD’s aid to Africa for agriculture, MICs very much wanted to remain recipients of IFAD’s loans, not because the aid was financially significant or advantageous, but because they thought that it would bring them international knowledge and best practice (AfDB/IFAD 2009).

However, this picture is perhaps over-simplified. First of all, the World Bank’s reclassification of LICs by GNI pc is based on inflation rates in rich countries and the reduced value of the US dollar, which almost automatically continually includes more countries in MIC status. (Compare this with the difficulty of ‘escaping’ LDC status!) It is significant that figures for out of (primary) school children are much more evenly balanced

between LICs and MICs than the poverty figures. And this is only primary education, which we know is far less effective than post-primary at helping people escape poverty! The reasons why the education deficit is more biased to LICs than either poverty or malnutrition need researching. But remember, education is a key aspect of the social contract and long-term poverty reduction, generally better in MICs than LICs, with exceptions (e.g., India is not good at providing it, whereas China has been excellent).

The converse to the dramatic headline above is that the proportion of the world's poor in LICs minus China and India has fallen by only 3 per cent over 20 years—and this despite the reduced number of LICs! So, change in China and India actually account for most of this story. On the other hand, note that the shares of SSA and least developed countries have gone up. The share of Africa has doubled. This could be a different headline. Note, it is also misleading to club India's and China's figures throughout this analysis, because there has been much more significant change in China across many indicators compared to India. Both countries need disaggregating because of substantial regional inequalities, especially in India's case.

The poorest are likely to follow the trend. The largest numbers and proportions of people well below the US\$1 a day poverty line are in South Asia and SSA (Ahmed et al. 2007), precisely where some of the transitions to MIC status have been occurring: in India, Pakistan, Nigeria, Sudan, Angola and Cameroun.

Aid donors, seeing the way the wind is blowing as countries inexorably get reclassified, have recently started to come round to the importance of continuing to aid MICs. This is probably a spurious conclusion, although there may be genuine reasons for continuing aid on a case by case basis including: big pockets of poverty justify aid wherever they are; there are spillover effects of MIC economic growth which could hurt the poor elsewhere, perhaps through greater global economic volatility, so aid can be directed at MICs to solve such effects; and there are moral obligations to compensate for adverse global power relations so long as these exist (Kanbur and Sumner 2011). Historically, some recipients of aid might also point to the useful effects it has had: transferring knowledge, expertise in particular. This has been China's rationale for continuing to take World Bank loans and other aid during the last decade.

The UK parliament recently debated aid to India, historically its biggest aid recipient, in early 2011, against the backdrop of a strong and persistent campaign in the tabloid *Daily Mail* against aid to India. The International Development Committee (of Members of Parliament) concluded that the Department for International Development's (DFID) £280 million programme in India was useful, reasonably focused on poverty (though it could be more focused across the board on inequality), and helped India achieve the MDGs. Inequality remains the central justification for the UK maintaining an aid programme to India—it has been working and continues to work in and with some of the poorest states, and tries to help them develop a better relationship with the federal government. It also works for and with excluded groups: scheduled tribes and castes, and poor women. It is focused on exploring innovations which can later be taken up by government. However, under the coalition government (2010–), DFID has also committed itself to channelling half its aid through the private sector, and this raised questions for the committee, which felt that UK aid to the private sector should be in the form of loans, and avoid distorting the market. It recommended that aid as a whole should be reviewed in 2015, with the suggestion that it might be restricted to technical assistance after that point (UK Parliament International

Development Committee 2011). In 2012, a new minister for international development, Justine Greening, accounted that financial aid to India would cease in 2015.

But actually, while the case for MICs benefiting from technical assistance in many fields including addressing extreme poverty is still a strong one, continuing to provide financial aid to MICs as a whole is much more questionable. The transitions which countries are making to MIC status offer a wonderful opportunity to limit financial aid both in terms of content and in terms of time. Putting a time limit on aid—5, 10 or 15 years after which it would be phased out—would concentrate minds on using the resource to the best possible effect, and on sustainability beyond the period. In terms of content, aid has rightly focused on reducing poverty over the last two decades. It would make sense to have eliminating absolute poverty as the goal for time limited agreements on financial aid. This would build on experience gained, and address what should be an achievable goal in many cases. Brazil, for example, has just declared it will be the first developing country to eradicate poverty. It would make sense for donors to support this cause—not necessarily with money, but with that too if it is really needed. This would justify a set of short supportive actions.

India, on the other hand, is a long way from eradicating poverty, and some of the causes of its persistence are deep rooted and linked: the low wages paid to its often casual and usually insecure labour force, discrimination against ethnic minorities and lower castes, aspects of gender inequality, and the continued high rate of reproduction in poor states and among poorer social groups. Donors in the past have tended to shy away from working in the most difficult states. Some have done this more recently (DFID, the World Bank) and with some success, although there are no published evaluations since 2006, so their aid to Orissa or Bihar, for example, cannot be adequately examined.

It is in MICs that rights-based approaches have been pursued by some governments. Several Latin American governments provided far reaching rights to indigenous (generally relatively poor) populations through constitutional changes and special legislation in the 1990s; during the 2000s India has passed a number of specific laws giving rights to information, forest land, employment, and education, with more similar laws still to reach the statute book. While these are no panacea, they are taking a direction which is potentially very pro-poorest. Interestingly India's few remaining donors have had little to say about this movement, and have certainly rarely come forward with explicit support (Mehta et al. 2011). South Africa's health rights offer another example.

## **7 Some case studies**

A perusal recent OECD/DAC donor peer review reports suggest that several donors are reallocating aid towards poor countries and fragile states, and developing cross government coherence in their responses to fragility (for example, the US or Denmark), but few donors are making dramatic headway in addressing poverty in those or other countries in terms of disaggregating the poor; working with governments or local agencies to develop policies and programmes at country level which would address the problems of the poorest, or foster upward mobility out of poverty or prevent downward mobility into poverty. Many donors are taking on (or re-emphasizing) economic growth, reflecting the stronger interest in economic growth in recipient countries, and adding an interest in private sector development. Some donors' own statements have been quite confusing. Denmark's Freedom from Poverty, for example, adds a focus on freedom and the private sector, without showing in operational

detail how these will contribute to poverty reduction, which remains the overall goal. 'Poverty focus' for many donors still means working in the poorest countries, but not necessarily with or for the poorest people, whether there or in more stable or middle-income countries, where aid is still focused for some (e.g., Germany) (OECD/DAC 2010b).

However, a few donor agencies were very interested in the work of the Chronic Poverty Research Centre, notably USAID, Germany's BMZ and GIZ, AusAID, UNICEF, ILO (on social protection), and UNDP, in addition to DFID, the main funder of the CPRC. Of these we take a closer look at USAID, which has several new initiatives—on food security, health, climate change and a commitment to maintain across cutting focus on gender issues; DFID and the work of others in Bangladesh and UNICEF, whose organizational strategy focuses on equity.

BRAC and other large NGOs in Bangladesh have provided donors with an exceptional opportunity to support the poorest people. Its programmes linking micro-finance with training, asset building, and cash transfers have been extremely innovative, and based on such experiences, other programmes have been designed, such as the DFID supported Chars Livelihood Programme (Box 4). DFID's programme in Bangladesh has had a strong focus on the poorest for several years as a result. Others have come to this more recently (e.g., AusAID). Such successes, however qualified, illustrate the likelihood that the poorest people will need interventions which address their needs and interests specifically, alongside the broader sector and policy enabling environment.

Box 4: The DFID Bangladesh Chars livelihood programme

This programme is an asset building and vulnerability reduction programme targeted at the poorest households living in the Chars, seasonally submerged land, with often poor access to land. It has succeeded in building such households' asset base and transforming their situation from 'structural vulnerability' to 'proximate vulnerability', where their ability to cope with risk fluctuates from year to year and with the season. This represents a definite improvement. But it is not yet clear that such improvements can be sustained in the absence of programme interventions. In particular, it is not clear what the response of wealthy households will be to the greater access to agricultural land which programme beneficiaries have achieved with the help of the programme, once programme staff are no longer in the village. Poor participants have increased their consumption levels, but are not feeding their children more nutritious food, preferring to save and invest. Their human capital has not increased. However, the additional assets participants have acquired are making them less dependent on richer households for wage labour, food loans and credit more generally; thus beginning to change these relationships, especially reducing the structural violence poor households have been subject to. Women participants too have improved status through owning livestock.

Source: Based on Scott (2011).

*The US*, still the largest bilateral donor in terms of funding, has never been especially concerned with poverty reduction, being rather more focused on economic growth, markets and the private sector, democracy promotion, and recently on fragile states. The US has made a major reallocation of aid to the latter (with Afghanistan and Iraq high on the list, of course). Otherwise chronic poverty has historically been addressed through humanitarian action—food aid and other emergency assistance. The 2008 election was a turning point, with the US

becoming more positive about achieving the MDGs, and since then there have been some interesting work within USAID attempting to shift its treatment of the poorest from an exclusively humanitarian approach to a development approach. This has been led by a group of agency professionals working on poverty collaborating with those working on economic opportunities, markets and value chains, who have appreciated that if better functioning markets could also become more inclusive this would represent significant added value. This has produced some draft guidelines (USAID 2011) which are remarkably similar in content to the CPRC's focus on realizing the synergies between market development, asset accumulation and social protection through joined up policy making and programme design (Shepherd and Scott 2011: 44-5).

USAID is a highly decentralized body, so it makes sense to review what is happening at country level. Its Ethiopia, Bangladesh and Guatemala programmes are internally thought to be more poverty focused than others,<sup>11</sup> but an examination of its Ghana programme indicates it is not only these countries where a new poverty focus is emerging. USAID's 'Feed the future' initiative in Ghana is very focused on the north, and the coastal fisheries, which contain the poorest populations, which have not benefited equally from Ghana's economic growth over the past 20 years. There is a twin focus on improving the rice and fish value chains, but also reducing the vulnerability of those not able to participate well in those chains, and gearing them up to participate through investment in assets and human capital. The programme will thus work on the three 'assets-markets-protection' dimensions of development which were identified as essential for escaping poverty above.

There are other USAID supported programmes where such links are also being made – in Ethiopia the USAID-funded Market-Led Livelihoods for Vulnerable Populations (MLVP), implemented in Ethiopia by Chemonics together with CARE, Save-UK, REST and ORDA, was a value chain project that focused partly on PSNP beneficiaries. Some of their sub-projects provided household assets (silk breeding trays and improved beehives), and they all provided group assets (e.g., storage facilities, weighing scales, etc.). They combined value chain analysis and household economy analysis in a very interesting way, and their strategies were intended to serve as a pilot to be scaled up under PSNP Plus. The USAID-funded Productive Safety Nets Program-Plus (PSNP Plus), implemented in Ethiopia by CARE together with CRS, REST and Save-UK, with support from SNV and Tufts, aimed to graduate households from the PSNP by providing assets to chronically food insecure households and linking them to markets. This project selected specific value chains (e.g., white pea bean, honey, livestock, etc.) and provided assets and training and market linkage support specific to those value chains. Unfortunately there was a drought that wiped out the gains early on, which underscores the inadequacy of even consumption support + asset building, and helps make the case for weather-indexed insurance.<sup>12</sup>

*UNICEF* has made the case for a strategic focus on equity in programmes – seeking out the hardest to reach in the remotest areas with difficult physical geographies and weak infrastructure, sometimes conflict affected; and this focus can increasingly be seen in its own programmes, which are generally integrated into government programmes (UNICEF 2010). Underpinned by significant work on statistics and disaggregated deprivation, and a long term commitment to children's rights and gender equality, it appears that UNICEF's operations

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<sup>11</sup> Tim Mahoney, personal communication.

<sup>12</sup> I am grateful to Tim Mahoney and Ruth Campbell for this information.

may now be strongly guided by such concepts and concerns, although no review or evaluation has been published.

These brief vignettes compare two agencies which for some time have been working with a strong commitment to poverty reduction or equity through a large proportion of their operations (DFID and UNICEF) with a donor, USAID, which has never sought to work centrally on poverty reduction, but whose recent commitment to support the MDGs has opened the door to very interesting initiatives. What can we learn?—that agencies can transform their work by combining detailed analytical work with strategic thinking; that motivated individuals and small groups within agencies can make a difference, though they may have to spend years in the wilderness before their concerns are heard or find their time. And that political change and new leadership can be an opportunity for such groups to mainstream their concerns.

## **8 Sector aid**

The trend to provide aid in the form of general budget support is linked to some donors shifting from project to sector aid. Classic impact evaluation methods are more relevant for project than programme aid, though there has been some effort to adapt (Elbers, Gunning and de Hoop 2009). One argument is that providing aid to a sector, rather than in the form of discrete projects, is simply good in itself, and does not need to be judged by its outcomes. Good because it reduces transaction costs, duplication, and allows government to take a more strategic and directive approach to making the sector work better. The outcomes of multiple investments in a sector would, in any case, be difficult to disentangle one from another, and attribution would be a huge problem.

Few sector aid reviews seem to address inclusion or redistribution issues systematically. A recent study of Sector Budget Support in Practice concluded that sector budget support (in common with general budget support) had improved access to basic services and increased the efficiency of public expenditure. But donors still needed to reduce earmarking and traceability requirements, which would require changes to incentive structures, and needed put service delivery at the heart of the programmes, in order to achieve better outcomes, especially for poor people. ‘Both general budget support and sector budget support, along with all other established aid instruments, are struggling to have an impact on the quality and equity of service provision’ (Williamson, Dom and Booth 2010: 1). The implications of the review include the risk that donors, seeing that sector programmes are not making a difference to outcomes for the poor, will revert to more direct aid modalities (local, project based) in their efforts to achieve outcomes.

There is another approach we can take—looking at sector outcomes, and asking about the contribution which aid has played. A useful study from this point of view is the *Stories of Development Progress* (Steer et al. 2011). Here it is very clear that progress in education, health, agriculture and drinking water supplies has been made in a variety of settings, including those where it is quite surprising to find progress. And having ‘smart friends’ (i.e., development partners) in the words of the study is one of the four drivers of progress, alongside smart policies, institutions and leadership. Not a bad result for aid.

Box 5: Finnish aid to forestry in Vietnam

VinFinFor is a long-standing Finnish forestry sector aid programme, starting as an area based project in Bac Kan province, and acquiring sector wide properties in its latest phase. It was an agro-forestry programme, with extension, credit, land allocation and certification components, with a carefully disaggregated and targeted approach.

A careful comparison of programme participants with matched non-participating households yielded strong results, and as an example of how aid programme can be assessed using a quantitative and qualitative approach. Impacts were good and significant on household expenditure, food security and access to credit. Impact on poverty, however, produced two different results depending on the criterion assessed. Incidence of poverty according to the national poverty line did not reduce significantly faster among participants (remembering that this was a period when extreme poverty and food poverty both reduced very rapidly in Vietnam), though poor participating households were significantly more likely to move out of poverty than non-participating poor households. But incidence of asset-poverty as locally defined (to a significantly higher threshold) declined significantly more among programme participants between 2000 and 2007. This suggests that the programme worked well for the less poor, but not dramatically so for the poorest. It also worked to arrest the impoverishment of women headed households.

The study concluded that women headed households and the poorest needed more attention and special measures from programme implementers so that they could understand and realize more of the programme potential.

Source: Based on Bui Thi Minh Tam (2011).

Many donors devote much of their effort to particular sectors, and in this case one would expect to see periodic reviews of aid in that sector, taking the long view, and a concern for effects and impacts as well as process. Perhaps it takes an independent set of reviewers to design an effective evaluation approach: a good example of this is a recent analysis of Finnish forestry aid (Mustalahti 2011). This covers in some detail the impacts of Finnish forestry aid to a number of countries, with a variety of focuses and evaluation methods. The study is unified by an attempt in each case to understand the changing context before, during and after the interventions, and work out the plausible contribution of the intervention(s) to outcomes. While the study is able to point to many varied specific results, for example, the detailed and gendered impacts on poverty incidence, escaping poverty, household expenditure and food security of a project in Vietnam and of other projects (Box 5), it is also able to stand back and spot that Finnish forestry aid is based on a Finnish model based on high planning and private sector inputs, which is not, according to the authors, generally applicable in developing countries.

## 9 Why is poverty not more central to the donor world?

The premise of this paper would be disputed by some agencies, and there is certainly room for continued discussion about achieving poverty reduction through direct and less direct means—the less direct, and enabling environment being critical factors. However, just as many developing country governments have not prioritized poverty reduction, so donors are



rarely able to carry through whatever commitment to poverty reduction they have in a very systematic way. While since the late 1990s developing countries have been asked and pressed to develop PRSs in order to access HIPC funds, budget support and World Bank loans, and many donors have aligned their aid with these poverty reduction strategies, PRSs have varied in terms of how disaggregated and inclusive they have been. The best have not necessarily been found in the most democratic countries, rather in those where a political movement had brought greater focus to the poor(est): Ethiopia, Uganda, Vietnam (CPRC 2008: Chapter 2). However, while this commitment to alignment with PRSs was a great start, few donors have actively built on this and deepened their commitment. Rather it has been continually diluted with other commitments, only some of which are cognate.

There are other signs of low and diminishing commitment. The continued absence of evaluation, including impact evaluation across much aid, is one indicator of this; *pace*, the recent flirtation of some agencies with Randomized Controlled Trials.<sup>13</sup> The IFIs are an exception to this with their independent evaluation units reporting to presidents and boards. This is perhaps a model others could follow. Social protection is an area where there has been a serious commitment to data collection and analysis by investing countries, and this has been very important to the cross-political party consensus which has developed in some countries, and this has been supported by the World Bank and others. It would be good if other, newer areas of aid focus received similar treatment: investment in agriculture, work on promoting markets and the private sector as a means of poverty reduction, for example.

There are several possible explanations for this state of affairs. First, the MDGs have provided the conceptual approach to addressing poverty and deprivation, but several of the goals do not have equity built into their targets. The concern with averages and incidence removes any obligation to dig into what is going on below the poverty line, or to develop approaches which keep those who have made it out of poverty from falling back in. This offers a lesson for the post-2015 framework, which needs to include equity or equality indicators across whatever goals are adopted.

Second, the widespread promotion of performance-based aid (mainly by multilateral development banks) sometimes allows the causes of poverty and deprivation reduction to remain in a black box. This is clear in the case of the least developed countries, where donors' single minded focus on performance is at the expense of considering the impact of economic vulnerability, which is held to be a central reason for the inability of many LDCs to cease being LDCs (Guillaumont 2010). Considering economic vulnerability might involve supporting economic diversification, a focus on regional integration and probably intra-regional redistribution (as in the EU), issues which donors have been reluctant to emphasize. Otherwise performance-based aid is seen as an alternative to conditionality. However, with few exceptions, it has not been evaluated as such.

Third, organizational incentives may be part of the problem. These often work in favour of spending money, and innovation. Innovation is clearly needed, but if pursued for its own sake may work against the humdrum, solid work needed to complete important work already begun. This leads to a stop-go aspect of aid, and a failure to 'stick to the knitting' when needed. However, the widespread acceptance of the MDGs as an objective framework has

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<sup>13</sup> While these are capable of supplying insights, there are many situations in which RCTs are not possible, others where the ethics of deliberately excluding in order to get a control group are not admissible, and still others where scarce resources could be better spent.

greatly constrained the tendency to change focus with every passing fashion (Shepherd 2001). This is a reason for sticking with that particular piece of knitting for some time to come, perhaps with some marginal changes.

Contexts for poverty reduction are acknowledged to be varied, but donors typically do not make the investment in political economy analysis or in long-term postings to enable sophisticated understanding of context. Recent exceptions include DFID's Drivers of Change analyses, SIDA's Power Analysis, but much aid remains fairly blind to context.

Policy entrepreneurs who are interlocutors for the poor in donor agencies have a hard time persuading their colleagues... in USAID, lone voices have barely kept the flame alive during the Republican years, and have now been able to re-emerge and make a difference to thinking and practice. In many small donor agencies or departments only one or two people are charged with ensuring a poverty or a gender equality focus to the agency's work—too few to really do the job properly (Box 6). The successful agencies (e.g., UNICEF, DFID, World Bank) have had significant numbers of professionals pursuing a poverty/equity/gender equality agenda, often in policy units, and with the critical support of top management and/or political leaders. These agencies have pursued these agendas over long periods of time, such that their officials posted in developing countries are also imbued with the same ideas.

What would make a real difference would be regular, Q<sup>2</sup> evaluations of all or most aid programmes and modalities, from a disaggregated poverty perspective, in the public domain. This learns from the important experience of Latin American conditional cash transfer programmes which have generated significant cross-political party consensus behind the value of social protection. It also learns from agencies like BRAC whose early studies of micro-finance telling them that the poor(est) were largely left out led them to a raft of innovative more inclusive programming.

**Box 6: Getting greater recognition for cross-cutting issues in Finnish aid**

Finnish aid strategy has had a strong focus on 'cross-cutting issues', including gender, and inequality and vulnerable groups. However, the Ministry recognizes that it has been weak at implementing these cross-cutting concerns. Project design has not been good at developing explicit causal chains which will link inputs and outputs to beneficial outcomes on gender, equality or vulnerability. Logframes have focused on inputs and activities rather than outcomes. Evaluations have demonstrated this, and these are taken seriously by the agency, they are widely read and their messages internalized. The ministry has one poverty adviser and one gender adviser, who work together, but are very overstretched. Quality assurance mechanisms are not strong enough to compensate. As a result project cycle management procedures are now being revised, although this is a difficult exercise, as it is not always easy to work out how such cross-cutting issues should be represented.

Source: Kate Bird (personal communication).

## **10 Conclusion: implications for the post 2015 development framework**

The overall conclusion is that aid for poverty reduction has got somewhat stuck—in its base in the more basic of the social sectors (which nevertheless remain very important), in a

commitment to indirect channels to reduce poverty (especially the promotion of economic growth, governance reform and democracy), in an undynamic understanding of poverty and wellbeing, and above all in a limited view of the meaning of ‘poverty focus’—and needs to move on rapidly and significantly over the next 2-3 years so that a post-2015 framework can be supported with better intellectual and political/policy infrastructure. The limited view of ‘poverty focus’ is especially concerning, because it may be leading down two cul de sacs. Poverty is assumed to be addressed if aid is allocated to poor (or the poorest) countries or to fragile states. Several donors have tried to re-allocate their aid towards these countries, although this does not appear to have shown up in the aggregates as yet; and, as we have seen, it cannot be assumed that such aid will benefit the poor in those countries, given their political and governance problems. Whether this re-allocated aid is actually preventing impoverishment or helping people in those countries escape poverty, resist impoverishment, or tackle chronic poverty are questions not generally asked by donors. They have other leading concerns in the poorest countries: economic growth, trade promotion, political stability, conflict management. Somehow they need to find a way of incorporating a better poverty analysis, and greater understanding of what helps the poorest improve their position into programmes in the poorest countries.

Beyond this, the paper has indicated how geographically unbalanced aid flows are among fragile states. Glennie has recently shown how 2/3 of the poor live in countries which receive little aid (and did in 1990 as well). The re-allocation to the poorest states does not seem to have gone beyond rhetoric, if the figures are to be believed. This surely needs to change.

If aid for poverty reduction has got stuck, what should it move on to, other than a more careful allocation of aid across countries? One politically correct answer could be that ‘countries must decide; donors should support’, and this is, of course, a very sound answer. However, there remain some issues which could be considered in the discussions between (hopefully groups of) donors and governments.

This paper has argued that, at the very least, political and economic aid needs to be integrated for the poorest and most fragile states. Governance reforms should be seen in the light of pro-poor(est) economic development requirements rather than against some abstract ideal type of how government should be. UNCTAD is already making this argument in its LDC reports. The benefits of this would be that the enormous energies put into governance reforms and capacity-building would be at least partly directed at achieving a pattern of economic development which includes the poorest, aiming at providing them with work (jobs, self-employment) and the capabilities to undertake it, and protecting them against risk. The first part of this agenda has largely fallen outside the orthodox approaches to aid over the last two decades. (Re-)building capacities in health and education and social protection, which have been the focus of aid, can contribute to this. But the sequence of public investment and priority needs to be worked out context by context. Fragile governments with limited capacities cannot do everything at once. The history of successful countries’ development trajectories indicates that health and social protection efforts have often followed way behind the promotion of economic growth and education, for example.<sup>14</sup>

While this sounds easy, of course it is far from that: this is the real challenge of development in the twenty-first century. Part of the challenge is to avoid ideological traps about the role of the state. In order to develop agriculture, for example, it is clear that states need to play very

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<sup>14</sup> See Chronic Poverty Advisory Network (2013, forthcoming).

significant roles in addressing market failures, protecting farm households against risk (whether through subsidized insurance or social assistance), regulating some markets, and enabling farm households to accumulate the assets they need to succeed.

The current MDG framework does not enable governments and donors to work on linking the political/governance reforms and capacity-building to economic development. It assumes that capacities will be built to provide health, education, water and sanitation services, and that, somehow, this will feed through into poverty reduction. A new framework would need to acknowledge that economic growth is important, and that governments need policy space and capacity to shape growth in favour of the poor if poverty is to be sustainably reduced. There are different ways of doing this, but no blueprints, so it will not be possible to have a framework of targets in the same way that has been possible for health and education. A few indicators of progress could be brought together as a powerful suggestive device of what needs to be done: tax/GDP ratio; access to financial services, especially savings; capital formation in agriculture and manufacturing, but countries should also be free to develop their own strategies as well as indicators that growth is benefiting the poor. And in developing the post 2015 framework there needs to be a big discussion about what the range of appropriate indicators might be.

One specific which needs to feature in the new framework is the acknowledgement that vulnerability underlies chronic poverty and the failure of many poor people to take advantage of economic growth. The framework needs to pave the way for massive investment in social protection, aided where necessary. The spread of social protection would also be one measure which will help improve the quality of jobs. This paper has argued that a major issue for pro-poor growth strategies going forwards is the tension between the quantity and quality of jobs created. The current MDGs include pious words on employment: what comes next should have more bite...

If the poorest are going to be included more thoroughly in the next 20 years, the post-2015 framework needs to build equity into the structure at all points. Averages are not enough, whether in goals or targets. Distribution needs to figure in all indicators. If this can be maximized in the international framework, it will hopefully seep down into national practice.

The failures of reconstruction and conflict prevention documented in this paper, which have such devastating consequences for poor people, also need attention in the coming framework. Since it is political system failures which are most closely associated with political instability and conflict, it will be good to clearly lay out the danger points, and monitor these globally. If there are conflict hotspots, with spillovers from one country to another, these need to be monitored and preventive actions taken regionally and globally. If it is the case that partial democracies with factional politics more frequently descend into violent conflict, then governments need to know this and incentives to reduce factionalism and move to full democracy will be important.

Finally, aid evaluation remains weak, despite all the attention given to approaches and methods over the years. There is not enough of it; it is not adequately disaggregated, despite the means to do so being at hand in many countries. If aid is to play a stronger role in eradicating poverty during the coming decades than it has to date, the most urgent long-term measure is to put in place a culture of evaluation which puts disaggregated information into the public domain, in developing as well as donor countries. Public debate, more than anything else, will sharpen the focus of aid on poverty. Perhaps a Millennium Development

Goal on the proportion of public expenditure which is evaluated (15 per cent?) would support the cause.

The assumption throughout this conclusion is that the post-2015 development framework is an important moment for the eradication of poverty. To the extent the preparatory discussion and UN resolutions in 2015 are directed at (and probably by) developing countries, there is a chance this may be the case, since it is in developing country policies and programmes that a substantial difference can be made. To the extent it is directed by and for international donors this may be less so, unless they change their ways and really focus deeply on eradicating absolute poverty. So far the focus of much aid has been superficial. The greater danger is that developing country governments and donors are already focused on a whole range of other 'goods'—economic growth, responses to climate change, democracy—and that poverty eradication will continue to get short shrift.

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