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Working Paper

The implications of horizontal inequality for aid

WIDER Research Paper, No. 2007/51

Provided in Cooperation with:
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Suggested Citation: Brown, Graham; Stewart, Frances; Langer, Arnim (2007) : The implications of horizontal inequality for aid, WIDER Research Paper, No. 2007/51, ISBN 9291909963=978-92-9190-996-4, The United Nations University World Institute for Development Economics Research (UNU-WIDER), Helsinki

This Version is available at:
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Research Paper No. 2007/51

The Implications of Horizontal Inequality for Aid

Graham Brown, Frances Stewart, and Arnim Langer*

September 2007

Abstract

This paper argues that the reduction of horizontal inequalities (HIs) or inequalities between culturally defined groups should inform aid policy in heterogeneous countries with severe HIs. It shows how this would change aid allocation across countries, leading to more aid to heterogeneous countries relative to homogeneous ones, the opposite of the existing bias in aid distribution. It explores how adopting an HI approach would affect the use of particular aid instruments, arguing that different instruments are appropriate according to the attitude and capacity of the government in relation to correcting HIs. Drawing on case studies of Ghana and Nepal it argues that at present there is neglect of HI considerations in aid policy, which can be particularly damaging where aid forms a large part of government resources.

Keywords: aid, horizontal inequality, social exclusion, Nepal, Ghana

JEL classification: F35, D63

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This study is a revised version of the paper presented at the 16-17 June 2006 WIDER development conference on 'Aid: Principles, Policies, and Performance', directed by George Mavrotas.

UNU-WIDER gratefully acknowledges the financial contribution to the conference by the Finnish Ministry for Foreign Affairs.

UNU-WIDER also acknowledges the financial contributions to the 2006-07 research programme by the governments of Australia (AusAID), Denmark (Royal Ministry of Foreign Affairs), Norway (Royal Ministry of Foreign Affairs), Sweden (Swedish International Development Cooperation Agency—Sida), and the United Kingdom (Department for International Development—DFID).

ISSN 1810-2611 ISBN 92-9190-996-3 ISBN 13 978-92-9190-996-4

Acknowledgements

We are grateful to Arnim Langer for assistance on the Ghana case study and to the participants at the UNU-WIDER Development Conference on Aid, 16-17 June 2006 for helpful comments on a previous draft of this paper.

Acronyms

ADB	Asian Development Bank
CAP	country assistance programme
CAS	country assistance strategy
CIDA	Canadian International Development Agency
CPN-M	Communist Party of Nepal - Maoist
DFID	Department for International Development, UK
GBS	general budgetary support
GDP	gross domestic product
GPRS	Ghana poverty reduction strategy
HDI	human development index
HI	horizontal inequality
HR	human rights
IDA	International Development Association of the World Bank
IMF	International Monetary Fund
MDBS	multi-donor budgetary support
MDG	Millennium Development Goals
MTEF	medium-term expenditure framework
NPV	net present value
ODA	official development assistance
PER	public expenditure review
PRBS	poverty reduction budget support
PRSPs	poverty reduction strategy papers
SWAP	sector-wide approach

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Typescript prepared by Liisa Roponen at UNU-WIDER

The views expressed in this publication are those of the author(s). Publication does not imply endorsement by the Institute or the United Nations University, nor by the programme/project sponsors, of any of the views expressed.

1 Introduction

This paper examines the implications of horizontal inequalities—inequalities between culturally-defined—ethnic, religious, racial or regional identity—groups for aid policy in developing countries. Horizontal inequalities (HIs) are important because they affect individual wellbeing, economic efficiency and social stability, while in some circumstances they can lead to serious violent conflict, thereby undermining most development efforts (Langer 2005; Mancini 2005; Østby 2004; Stewart 2002).

As Cohen (1995) noted over a decade ago, much academic and donor research has been undertaken linking aid with development, and development with ethnicity, but rarely have the three factors been drawn together. This is all the more a matter for concern as

> the formally technical and neutral character of decision-making processes and alternative criteria at the international institutional level carry important, often unforeseen consequences for ethnic conflict… [if more were known it might] enable foreign aid donors to become more aware of relationships between the resources and advice they provide and inter-ethnic relationships in the countries in which they intervene (Esman and Herring 1995, quoted in Cohen 1995: 3).

In this paper, we examine how aid policy affects horizontal inequalities; how the impact can often be adverse if HI considerations are not taken into account, and how aid might be redirected to contribute to the reduction of such inequality. The paper is organized as follows. Section 2 introduces the concept of HIs and explains why they matter for aid. Section 3 explores how policies that do not take horizontal inequalities into direct consideration may affect HIs and may inadvertently exacerbate such inequalities. Section 4 discusses how aid policy might be used to reduce HIs. Section 5 presents two case studies, of Ghana and Nepal. Section 6 concludes.

2 Horizontal inequalities: what they are and why they matter for aid

Horizontal inequalities are conceived of as multidimensional, with economic, social and political dimensions. Each dimension encompasses a number of elements. For example, economic inequalities include a variety of assets (financial, natural resources, human and social capital) as well as opportunities for their use (especially employment), and the current resources that flow from these assets (i.e., income); social HIs include access to a variety of services (education, health services, housing) and also outcomes in the form of human indicators (infant and maternal mortality, for example, life expectancy, literacy), while political HIs consist in the group distribution of political opportunities including who controls the presidency, the cabinet, parliamentary assemblies, the army, the police, regional and local government. Each of these lists includes both inputs and outputs (e.g., assets and incomes; health services and health outcomes), while some dimensions of HIs influence other dimensions (e.g., political power affects the economic and social dimensions). This extensive approach is deliberate because (i) many of the elements are not only inputs but also contribute directly to individual wellbeing, and (ii) inputs are generally easier to affect directly through policy than outcomes. While the broad dimensions are relevant in any context, the actual elements that matter will vary according to the economy and society; for example, land is less important in industrialized countries than in many developing countries.

Horizontal inequalities are important because they affect wellbeing directly and because they affect other objectives instrumentally. People's wellbeing is affected not only by their individual circumstances, but also by how well their group is doing. This is partly because membership of the group is an aspect of a person's identity and hence the group's situation is felt as part of an individual's situation; and partly because relative impoverishment of the group increases perceptions of members that they are likely to be trapped permanently in a poor position, or, if they have managed to do better than many in the group, that they are likely to fall back into poverty. Hence the wellbeing of Muslims in Western Europe, Catholics in Northern Ireland, Hutus in Rwanda, Afro-Americans in the US, blacks in apartheid South Africa, to take just a few of many examples, is (was) deeply affected by the relative impoverishment of the group—over and above the position of the individual themselves. Psychologists have shown, for example, that Afro-Americans suffer from many psychological ills due to the position of their group, or 'Being Black and Feeling Blue' as Brown and Williams put it (Broman 1997; Brown and Williams 1999). The direct impact on wellbeing is not only more powerfully felt, but is also a more important consideration, because horizontal inequalities often persist over generations, showing more persistence, typically, than individuals' ranking within a group (Stewart and Langer 2006; Tilly 1999).

Horizontal inequalities also matter for three instrumental reasons. First, it may not be possible to improve the position of individuals without tackling the position of the group as a whole. For example, programmes to advance credit to poor producers, or to promote universal education, may not be achievable so long as group inequality remains. An example here is extending education to all girls which may be prevented not by a lack of schools or teachers, but by parental attitudes to girls' education (Hafeez 1993; USIS and USAID 1992). For sharply divided countries, the poverty reduction targets of aid agencies may be impossible, or very costly, to achieve, unless HIs are directly targeted. The position of Vietnamese minorities provides an example (van de Walle and Gunewardena 2001).

Second, correcting such horizontal inequalities should have a positive effect on efficiency. Any situation in which a group is discriminated against is likely to lead to be less efficient than in the absence of discrimination, since talented people in the group discriminated against will be held back, while too many resources, or too high a position, will go to less talented people in the favoured group. For example, Macours (2004) argues that ethnic diversity in a context of weak property rights enforcement can result in market segmentation and less than optimal land allocation. In Guatemala, informal land contracts are more likely to take place within the same ethnic group. Conversely, most studies show that affirmative action for Afro-Americans in the US has had a positive impact on efficiency (e.g., Badgett and Hartmann 1995).

A third and most critical instrumental reason for trying to moderate HIs is that group inequality can be a source of violent conflict (Stewart 2000). Group inequality provides powerful grievances which leaders can use to mobilize people to political protest, by calling on cultural markers (a common history or language or religion) and pointing to group exploitation. This type of mobilization seems especially likely to occur where there is political as well as economic inequality, so that the group leaders are excluded from formal political power while the mass of group members are economically deprived. Examples where group inequalities have been a factor in provoking conflict: Côte d'Ivoire, Rwanda, Northern Ireland, Nepal, Chiapas, the Sudan to mention just a few (see, e.g., Murshed and Gates 2005; Gurr 1993; Gurr and Moore 1997; Langer

2005; Stewart 2002). Sharp horizontal inequalities within countries (and between them) are an important source of grievance and potentially of instability, independently of the extent of vertical inequality. There is econometric cross-country and within country, as well as case study, evidence showing that conflict potential is higher where HIs are more severe (Barrows 1976; Mancini 2005; Østby 2004). It seems that conflict is less likely, however, if economic and political HIs go in opposite directions, when the group that dominates the political system does not also dominate the economic one (e.g., Langer 2005; Østby 2005).

From an aid perspective, each of these reasons should be regarded as highly relevant: efficiency and growth, poverty reduction, and the enhancement of wellbeing, or freedoms, are generally accepted as key objectives by aid donors. Moreover, political stability is essential for achievement of any of these objectives and is also an imperative in itself—both for the consequences instability has for the suffering of the people concerned and for the potential overspill into regional and international arenas in a way that may threaten strategic interests and the security of the donor nations. Indeed, even in the absence of political instability, severe horizontal inequalities can be a source of international migration; and where the cultural groups in question correspond to cultural divisions internationally and within donor countries, severe HIs in one part of the world, especially if supported with international aid, may become a factor leading to terrorism/instability in the donor countries. An obvious case is the Muslim/Christian division—which shows up in severe HIs in many parts of the world (from Thailand to Nigeria, the Philippines to Israel) and is found within donor counties as well—so that what happens in one part of the world with respect to horizontal inequalities has clear implications elsewhere.

For these reasons the objective of moderating HIs should be an important aspect of aid policy wherever HIs seems to be large. Yet it does not form a significant part of either rhetoric or the operation of aid instruments, as is discussed below. We should emphasize that it is not just a matter that should be of concern in what have been defined as ‘fragile’ states, i.e., countries already identified as being conflict-prone. The need to take HIs into consideration also applies to everyday aid to politically stable countries because the reasons that relate to enhancing wellbeing and promoting efficiency and poverty reduction, apply just as much to these countries as to fragile states because, if severe HIs are neglected, these countries might fall into a fragile state.

3 Impacts of aid on horizontal inequalities

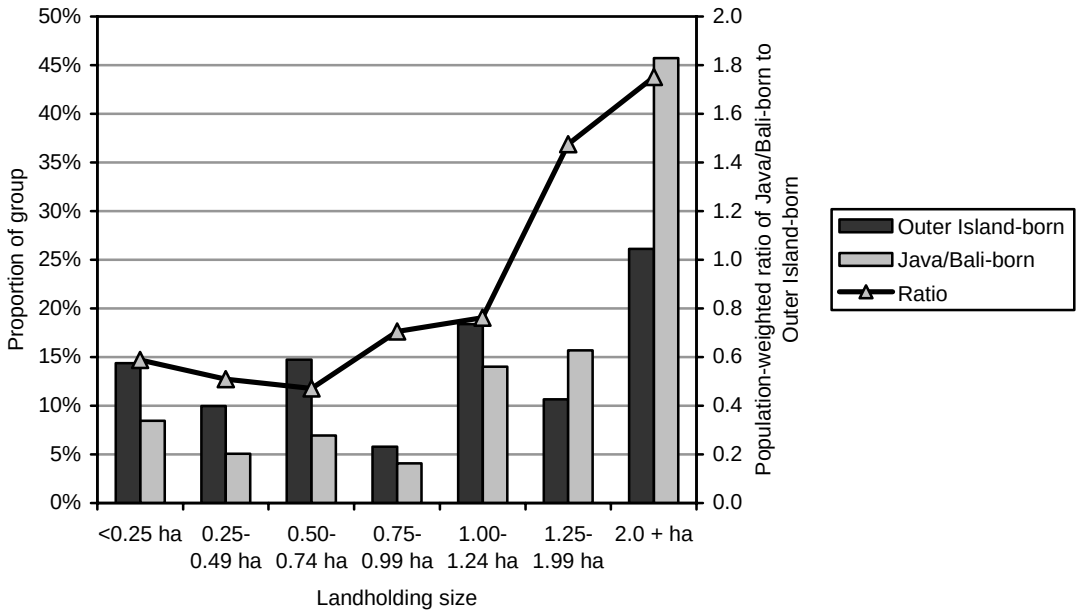
Where HIs are not a consideration in aid distribution it may well exacerbate rather than offset them. There are two reasons for this: first, because the normal considerations governing aid allocation lead to a distribution of resources which worsens HIs; and second, because in the implementation phase, projects and programmes may be liable to being ‘captured’ or abused in such a way as to worsen horizontal inequalities. We take these two possibilities in turn.

The normal considerations governing aid primarily concern efficiency and poverty reduction, at both programme and project levels. In both cases, the net impact may be to worsen HIs. For example, structural adjustment programmes at programme level typically favour the tradable sector as against the non-tradable. Often this means a worsening of the internal terms of trade in a way that favours the well-off groups,

because these are often concentrated in the tradable sector, as we shall see in the case of Ghana. Poverty reduction programmes might plausibly be expected to help the worst-off groups. But often this is not the case, as the poor in underprivileged groups are hardest to reach. Project finance can also fall into the same trap, with the most 'efficient' seeming projects being those in the more developed areas; and poverty directed projects (such as social funds) primarily benefiting the urban poor near the capital.

The transmigration programme in Indonesia, which relocated hundreds of thousands of families from over-populated Java and Bali to the more sparsely populated outer islands, encouraged and financially supported by the World Bank, is an example of how a programme can increase HIs, where these are disregarded. The programme impacted on indigenous ethnic groups and horizontal inequalities in two ways. First, the deforestation that accompanied the programme's settlement practices displaced smaller, migratory local communities and deprived them of their livelihoods. The World Bank's own assessment of the Transmigration II settlement noted that it had 'a major and probably irreversible impact' on the Kubu ethnic groups (World Bank 1994: 22). Second, the transmigration programme exacerbated rural ethnic inequalities and tension by assigning to the mostly Javanese transmigrants prime land, often in substantially larger family plots than those owned by local residents (e.g., Leith 1998). Figure 1 shows the distribution of landholdings among agriculturalists in the outer islands (i.e., all of Indonesia except Java and Bali), according to broad region of birth—i.e., among those from Java and Bali (the origin of transmigrants) as against the local-born population, based on 1990 census data. It shows how larger landholdings were concentrated on the Java/Bali-born agriculturalists. Overall, the interpolated median landholding of Java/Bali-born agriculturalists in the outer islands was 1.17 hectares, some 44 per cent higher than that of local-born agriculturalists, at 0.82 hectares.

Figure 1
Indonesia: Landholding among agriculturalists in the outer islands by region of birth, 1990



Note: 'Agriculturalists' are defined as persons who responded 'agriculture' to question on 'industry of main occupation last week'

Source: Authors' calculations from 1990 census sample.

One reason for these effects is that the consequences for HIs were simply ignored (or thought justified for perceived benefits). But scholars have suggested that the Indonesian government under Suharto had an ulterior ethno-regional motive for the transmigration programme, which was seen as a way of providing a bedrock of support in the outer reaches for the Javanese-dominated and territorially-organized armed forced (Tirtosudarmo 1995). In this context, it is unclear whether World Bank officials involved in the design and support of transmigration projects were aware of these motives and whether, if they did know, they had paid any thought to their potential repercussions on ethnicity and the distribution of resources or whether they simply assumed that the expected developmental gains of the project would outweigh any local tensions raised.

The second way in which aid might impact negatively on horizontal inequalities is through poor implementation processes which allow a horizontally 'neutral' programme/project to be skewed in favour of one or more groups. This process in turn could occur in either programme or project aid. Programme aid to support a government that practices exclusionary policies, whether formally or informally, would contribute towards horizontal inequalities. This might happen, for example, in the case of general budget support (GBS) to ethnically-biased governments, such as was the case for a long time in Nepal (see case study below). Second, project aid might contribute towards the exacerbation of horizontal inequalities if the project is vulnerable to ethnic distortion by individuals or groups involved in its implementation. Thus, for instance, Cohen describes a capacity-building programme for Kenyan civil service officials that was supposed to be blind to ethnicity but was in reality skewed by senior officials in favour of their own ethnic groups during the selection process. Cohen (1995: 13) concludes that:

> aid agency professionals were well aware of the possibilities of ethnic biases in all the capacity building projects they funded. When they felt that ethnic biases were emerging in the capacity building components of technical assistance projects, they went out of their way … to ensure that such biases were reduced or eliminated. They were generally unsuccessful in these efforts.

Other examples are to be found in Rwanda and Burundi. In pre-1994 Rwanda, according to Uvin (2000): 'Development projects and programmes lavishly funded by foreign aid, are one of the prime mechanisms through which the process of exclusion operates'. He supports this conclusion with the example of the Mutara Agricultural and Livestock Development project. 'the result of this project was a great increase in inequality between regions, classes, groups and individuals', much at the expense of Tutsi and Hima pastoralists. 'It was no accident that those who benefited were often from the president's region' (Uvin 2000: 170). In Burundi, aid accounted for 20 per cent of GDP 1988-92—considerably more than the total investment rate of around 16 per cent; hence all the investment in the Fifth Five Year Plan was financed by aid. The plan allocated just 16 per cent of investment funds to rural development, which would mainly benefit the Hutus, and the rest to the Tutsi dominated urban sector. Moreover, Gaffney estimates that from 1980-85 (when aid accounted for 13 per cent of GDP, or 80 per cent of investment), half the total investment went to Bujumbura and its surrounds and the province of Bururi where the (Tutsi) politico-military elite lived received another 16 per cent (Gaffney 2000). In these cases, it is not being argued that the aid was intentionally distributed to accentuate existing horizontal inequalities, but rather that it did nothing to counter the strong biases within the systems, which in both

Rwanda and Burundi had horrifying results. Hence, there is a need for explicit and conscious policies towards HIs in heterogeneous societies.

4 Aid policy to correct horizontal inequalities

The first requirement is to accept the need to moderate horizontal inequalities as an important objective of aid policy. For many aid donors today, poverty reduction is the overriding and often the only objective of aid. The correction of HIs could be subsumed under the poverty reduction objective to the extent that sharp HIs may lead to conflict and this will increase poverty. But this is a roundabout, and not always convincing, justification. We suggest that moderating HIs, where they are severe, should be one of the objectives of policy *in itself* because it leads to a fairer and more inclusive society.

In some cases, adopting this as an objective will involve tradeoffs with other objectives (e.g., short-run growth and poverty reduction), even though the objectives are likely to be compatible in the longer term because of the connection between HIs and political stability. Or other objectives may still be achieved, but in a more expensive way (e.g., reducing poverty in remote parts of the country instead of in the capital city). Choices must then be made. There is no simple or automatic way of deciding what trade-offs are acceptable; but in general, the more severe the HIs the more importance needs to be given to this objective, while trying to meet the objective in a way that is consistent with helping to meet the other objectives wherever possible, for example, reducing HIs by tackling poverty of deprived groups, not be enriching the elite of deprived groups; or by growth promoting investments among deprived groups. Consulting governments may not be the best way of determining priorities in this area, since quite often the government itself is instrumental in causing the horizontal inequalities, or has to be convinced of the importance of moderating them.

In this section we explore how aid policy could be used to help reduce horizontal inequalities, once it is accepted that this is an important objective. The modalities of aid obviously vary, and the ways in which consideration of HIs in aid will affect aid policy consequently also vary according to the aid instrument. We discuss four major aid instruments: country distribution of aid; programme aid accompanied by policy dialogue or conditionality, including poverty reduction strategy papers (PRSPs); public expenditure reviews and poverty reduction budget support (PRBS); and sectoral and project aid. We will also briefly consider how new approaches to aid, notably a human rights (HR) approach and a social exclusion approach relate to an HI approach.

4.1 Mapping horizontal inequalities

The first step in devising aid policy to correct horizontal inequalities is to gain a thorough understanding of the current status and dynamics of horizontal inequalities in the country. This is not straightforward for several reasons: first, as already mentioned, there is a problem of defining appropriate groups. There are always many ways of categorizing people: for example, it is common to classify according to age and gender, urban and rural. Gender and age are relatively straightforward, urban/rural less so. But assessing and measuring HIs involves classification by ethnic/religious/racial group. Boundary lines may be blurred and the relevant group selection may not be immediately clear. For example, in Ghana, should one classify by ethnic group, regional location or religion; if ethnic group, should one count the Akan as a single group, even though they

encompass many important subgroups, or should one differentiate by subgroup, picking out, for example, the Ashanti, who appear to be a particularly privileged group? If by region, where should one draw the line and why in Ghana's case—north/south, or also differentiating east from the rest; should one assess horizontal inequalities according to region of origin, including people who have migrated to the south as 'northerners' or by region where people currently live; if by religion, should one take 'Christian' and 'Muslim' as the main groups, or differentiate within the two major religions, and what should one do about traditional religions? There is no simple answer to these questions. One is looking for group boundaries that people mind about, and on the basis of which discrimination or favouritism occurs. A proper response to the question of how the group boundaries are to be defined would require in-depth investigation of opinions, discrimination, and history. Even this might not throw up simple and agreed distinctions, and it goes well beyond what can be expected from aid agencies on a day-to-day basis.

In such a context, a four-fold approach by aid agencies seems most apposite, which would comprise:

- An initial in-depth study of the country in question, which would investigate the history, political economy and sociology of the country and produce suggestions about important group distinctions; this would include drawing on surveys of people's own perceptions of identity distinctions, where available;
- A multiple approach, taking a variety of group classifications (ethnic, regional, religious) and seeing if and where the main inequalities emerge. If no significant inequalities emerge, then this is a country where HI may not be a concern. Where sharp inequalities emerge in one type of grouping but not another, the grouping showing sharp inequalities is the most relevant from the perspective of reducing HIs. Where identities overlap and similar findings emerge from the different groupings (e.g., religion and ethnicity overlaps with region, as in Nigeria) then the particular categories used may not matter.
- It is important to try and get evidence of the multiple dimensions/elements of HIs, because for aid-policy purposes one needs to know where the main problem lies, for instance whether it is a matter of access to education, or poor economic opportunities or both (see van de Walle and Gunewardena 2001 for an excellent investigation of this issue for minorities in Viet Nam).

A serious problem that will confront the mapping process in many countries is the lack of high quality socioeconomic data broken down by the relevant ethno-cultural categories. Such data are often sparse either because of poor quality data collection or because such questions are not included in household and census surveys, often because of their political sensitivity: Nigeria is an example where ethnic data is deliberately not collected because if its potential political implications (Okolo 1999). Working together with recipient countries to develop appropriate mapping tools may form an important part of an aid agenda in such countries, but for the initial assessment suggested above, it may be necessary to take some other characteristic as a proxy for ethno-cultural difference to provide an initial picture of the extent and nature of horizontal inequalities. Here we discuss two options: regional data, and a linguistic proxy.

In contrast to socio-cultural data, regional data are often more readily available and may thus be seen as a useful for ethno-cultural inequalities. How useful regional inequalities

are as proxies for HIs depends on the degree to which identity groups are geographically segregated. In many African countries, for instance, ethnic groups are regionally concentrated so that regional and ethnic identities are virtually coterminous and regional inequality may be a suitable proxy for ethnic inequality. Thus, for instance, Figueroa and Barrón (2005) use place of birth as a proxy for ethnicity in investigating horizontal inequalities in Peru. In other cases, where ethnic groups are not or less geographically segregated, the use of regional inequalities as a proxy for HIs may lead to erroneous conclusions. In Malaysia, for instance, where geographical segregation of ethnic groups is relatively low, ethnic inequalities have fallen considerably since 1970, but regional inequalities between the country's 13 states have risen consistently over the same period (Brown 2006). Another word of caution must be voiced relating to the treatment of the national capital region; in many developing countries, GDP is highly concentrated in the capital region, but this region is usually also the site of much greater ethnic heterogeneity than other regions, due to the migratory pull of the capital. This is likely also to be true of urban centres other than the capital region; for example, of the 306 districts in the 2002 SUSENAS survey in Indonesia, the 67 urban *kota* had an average level of ethnic heterogeneity almost double that of the rural *kabupaten*.[1]

An alternative proxy for ethnicity used in many quantitative studies is a language variable (e.g., Alesina et al. 2002; Collier and Hoeffler 2004; Easterly and Levine 1997).[2] Language variables can sometimes provide a useful proxy. In Indonesia, for instance, ethnicity data were not collected in census and socioeconomic surveys under the New Order period, but language was. Comparison of these language statistics at the district level with ethnic data available in the post-New Order period show close correlations, suggesting that language would be an effective proxy for ethnicity in this context (Mancini 2005). Two major problems arise with the use of language as a proxy, however. First, in many other contexts, significant ethno-cultural distance does *not* entail language difference; in the United States, for instance, the vast majority of blacks and whites alike speak English. Second, in many countries that do manifest linguistic divides there is significant language loss among minority groups, which is often driven by the socioeconomic advantage of speaking the 'national' language, usually that of the dominant ethnic group (Crystal 2000). This can thus be problematic for the use of a language proxy for ethnicity, as those who retain their native language are likely to be those with lower levels of education or less social mobility. Thus, comparison of socioeconomic performance based on language divisions may, in fact, overestimate the level of horizontal inequality because the higher performing members of a generally disadvantaged minority may be included in the majority group data on the basis of having adopted their language.

While these problems render regional and linguistic data inappropriate as proxies for ethno-cultural inequalities in some contexts, their careful use in detailed single-country analysis should provide some important insights into the dynamics of horizontal inequality where ethno-cultural data are unavailable.

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1 Using a common measure of ethnic diversity, the Herfindahl concentration index, the urban *kota* score a mean value of 0.480 against a mean score of 0.275 for the rural *kabupaten* (t-test stats: t=5.6579, P>t=1.000).

2 All these studies, as well as many others, make use of the so-called ethnolinguistic fractionalization index, based on the Soviet-produced *Atlas Narodov Mira*. This atlas, however, only compiled groups based on linguistic difference.

4.2 Country aid allocation

Like all 'good policy—bad policy' distinctions between countries, a difficult issue is whether to allocate more aid to countries with severe inequalities, on the basis that they need more help, or to those with limited inequalities, on the basis that they should be rewarded for inclusive policies. Since HIs generally have deep historic origins, it seems wrong to punish current generations for high horizontal inequalities, and indeed justified to give additional aid to such countries to assist them to overcome the HIs.

Taking horizontal inequalities into account in allocation of aid across countries then suggests that more aid should go to heterogeneous countries than to homogeneous countries, *ceteris paribus* because aid is needed to support the reduction of HIs in heterogeneous countries, but not homogeneous ones. Since there is growing evidence that homogenous countries grow faster for a given investment than heterogeneous ones (e.g., Easterly and Levine 1997; Gradstein and Justman 2002), the policy can be seen as helping countries overcome disadvantages arising from heterogeneity. Since uneven regional and cross-group development often has colonial roots (or the saliency of difference and HIs were enlarged as a result of colonial policy), there is additional justification for allocating more aid to such countries, to the extent that aid is some form of compensation for past colonial ills. The policy would be likely to increase the aid allocation of large countries at the expense of small, since large countries in general can be expected to show more heterogeneity than small, offsetting some of the existing bias in aid allocation which favours small countries.

Regressing aid distribution across countries shows, as expected, that aid receipts per capita are strongly and negatively correlated both with national income and country population size (Table 1, model 1). Additional variables for ethnic and religious diversity (models 2 and 3, respectively) are also significantly and negatively correlated with the level of aid received, although they only marginally improve the overall fit of the model. Linguistic diversity has no significant relationship (model 4). This suggests that even holding for income and size, aid policy tends to disfavour ethnic and religious diverse countries.

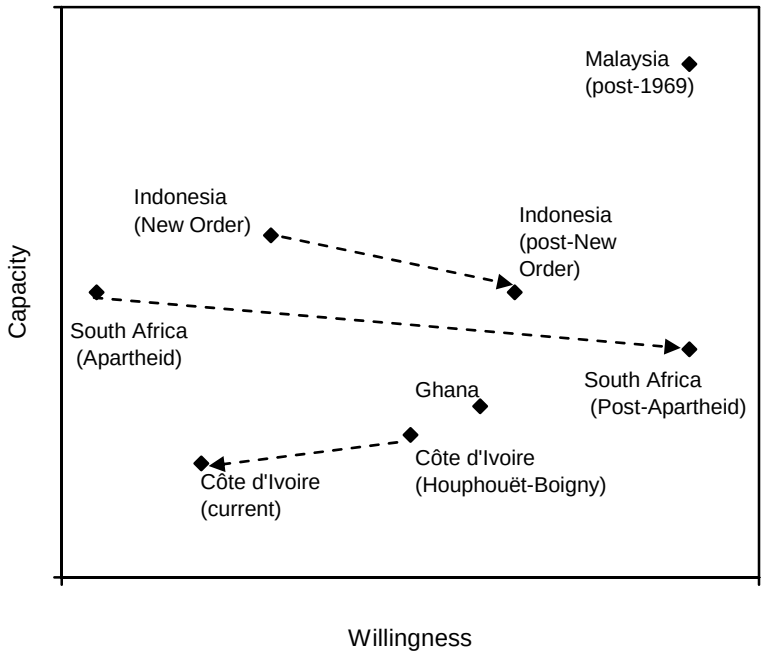
Table 1
Regression analysis: aid levels and recipient country diversity, 1965-2004

Aid per capita (US$, current)	1	2	3	4
GNI per capita (000 US$, current)	-1.517 (-5.58)	-1.611 (-6.02)	-1.554 (-5.76)	-1.505 (-5.23)
Population (log)	-18.814 (-28.42)	-17.416 (-29.17)	-19.392 (-28.09)	-16.969 (-27.04)
Ethnic fractionalization		-23.358 (-8.19)		
Religious fractionalization			-23.832 (-6.11)	
Linguistic fractionalization				-2.474 (-0.94)
Constant	336.849 (28.42)	325.937 (31.34)	356.213 (29.39)	307.815 (28.67)
R^2 (with robust standard errors)	0.278	0.277	0.287	0.254
N	4320	4280	4312	4125

Sources: Aid per capita (dependent variable), GNI per capita, and population from World Bank's WDI Database and CIA World Factbook; fractionalization data from Alesina et al. (2002).

Aid allocation might also take into account the severity of HIs across heterogeneous countries. This requires some aggregate measure of the severity of HIs for each country, which is not straightforward since there are multiple groups of varying sizes in most countries. For example, it is estimated that there are at least 45 distinct groups in Nigeria, including only groups that account for 1 per cent or more of the population; and 70 in Indonesia.[3] A review of alternative aggregate measures (Stewart, Brown and Mancini 2005) suggests that a population weighted coefficient of variation of mean group incomes, termed group coefficient of variation, appears to be the best measure from most perspectives (see also Williamson 1965 for an earlier use of this formula).[4] This measure is very highly correlated with other possible aggregate measures of country HIs, including group Ginis, and group Theils, according to data from Indonesia, South Africa and the US, but the measures show very little correlation with individual or household inequality measures, so these cannot be used as a proxy (Stewart, Brown and Mancini 2005).[5]

Figure 2
Schematic diagram of country context for aid policy



Source: Compiled by authors.

3 Data derived from the 1999 Demographic Health Survey in Nigeria (www.measuredhs.com) and the 1995 Inter-Censal Survey in Indonesia.

4 Algebraically, where a population with a mean income (years of schooling, etc.) of $\hat{y}$ is split into n groups, each of which comprises proportion p_i of the population ($p_1 + p_2 + \ldots + p_n = 1$) and has group mean income (years of schooling, etc.) of y_i, the formula is given by: $GCov = \frac{1}{\hat{y}}\left(\sum_{i=1}^{n} p_i (y_i - \hat{y})^2\right)^{1/2}$

5 As far as within country policy is concerned, there is no need to add up the various group inequalities into a single measure. The simple ratios of achievements of each group on the various dimensions to national averages, or to other major groups in a country, are sufficient. The more complex measures needed for aggregation into a single measure for each country are generally not very meaningful to the population itself, and consequently can lack welfare and political meaning.

It is useful to distinguish two dimensions affecting countries' response to HIs: their capacity and willingness. The extent to which a country has the capacity to deal with horizontal inequalities—the financial, technical and administrative wherewithal to institute-targeted programmes and transfer payments to benefit deprived groups—is likely to be strongly related to broader state capacity, and is thus likely to be relatively easily factored into existing donor calculations. Countries willingness to address HIs may vary for a number of reasons. Where the group that is deprived economically is in a politically dominant position—as in Malaysia or South Africa—there is likely to be considerable willingness to tackle HIs. Where the deprived groups are in a political minority, willingness may be less. In some contexts, governments may be generally inclusive, but not aware of the true extent of ethnic or religious disparities within their territory, or they may take the view that generic pro-poor policies would constitute a sufficient response to address HIs. In some cases, governments may be deliberately exclusionary.

Figure 2 gives a schematic and oversimplified representation of these two dimensions. Clearly, the HI-related purpose of aid would be to help countries move towards the top-right section of the diagram.[6] Appropriate aid policy then depends on where a country is in the willingness/capacity space.

Where countries are willing to address horizontal inequalities and possess the broad state capacity necessary to introduce such measures, the horizontal inequality-related role of aid may best be accomplished through general budgetary support to support the government's existing efforts. Other countries may have a broadly inclusive attitude but have no explicit policies or monitoring processes and need support on this as well as technical and financial resources; Ghana is perhaps an example here. In this case, policy dialogue is needed on the need to translate generally inclusive attitudes into specific policies towards HIs, plus sectoral and project aid directed at correcting them. In the low capacity cases, technical assistance will then be also needed on data collection, monitoring, and budgeting to help moderate HIs.

Finally, some countries may have severe HIs but the government is doing very little about correcting them and may even be pursuing deliberately exclusionary policies. Côte d'Ivoire has moved increasingly in this direction since the end of the Houphouët-Boigny regime (Langer 2005). This is the most difficult type of case for aid policy. Three approaches are appropriate: first, dialogue and policy conditionality to try and secure a more favourable attitude by the government, although experience suggests this is rarely effective; second, project and sectoral support directed at the deprived groups (an example is Operation Lifeline that supplied food and other basic goods to the south of Sudan in the 1980s); and third, promotion of other objectives which are acceptable to the government and which would also assist the poorer groups: comprehensive education and health services, for example.

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6 It is possible that a positive shift on one axis may be accompanied by a regressive shift on the other. Indonesia is instructive here. Under Suharto's New Order, horizontal inequalities were mainly ignored and indeed effectively banned from public discourse under the so-called 'SARA' regulations that prohibited public discussion of *suku* (ethnicity), *agama* (religion), *ras* (race), and *antar-golongan* (inter-group) relations. Following the transition to democracy in 1998 and the outbreak of a number of conflicts in the archipelago, however, the Indonesian government has accepted the need for horizontal restructuring. Yet the transition has arguably also resulted in a considerable reduction in state capacity (e.g., Brown, Tajima and Hadi 2005).

Programme aid accompanied by policy dialogue or conditionality, including PRSPs

Aid policy in countries unwilling to remedy HIs clearly requires some degree of policy dialogue or conditionality. This may seem somewhat anachronistic, given the increasing replacement of 'conditionality' by an emphasis on 'participatory' approaches to aid which aim to maximize the 'ownership' of development strategies by the recipient country (e.g., Kanbur 2000; Morrissey 2004). There is a strong view among many aid donors that aid should be country 'owned' and modalities and PRSPs are intended to help achieve this ownership. However, donors' presence in the PRSP process (sometimes a very large presence, including drafting the papers), and in the discussions over budgets in the poverty reduction budget support (PRBS), as well as their power to switch financial flows on and off, has meant that in practice 'ownership' is more about appearance and process than reality (Stewart and Wang 2005). Hence while the detailed conditionalities of the old-style structural adjustment programmes appear to be a thing of the past, the same donors still have a quite 'hard' agenda of policies they wish to promote, including a conventional, Washington consensus model set of policies promoting budgetary balance, and pro-market policies at national and international levels; as well as poverty reduction and fulfilment of the MDGs. In addition, a number of implicit 'soft' conditionalities have entered aid discourse, particularly project aid, through discourses on 'governance' and 'gender mainstreaming' (e.g., UNDP 2003; UNESCO 2003).

In this context, introducing HIs into the hard agenda could potentially make a difference. However, if 'ownership' becomes more of a reality, then donors' influence will be much more limited. In this situation, donors can still promote a group-equity agenda through dialogue, but may expect less direct influence over decisions. In the more willing cases, the dialogue can be expected to be quite fruitful (although less needed); in the unwilling case, where dialogue with the government is clearly needed, it might fruitfully be extended to other agents, such as local civil society, the media and so on.

Since the PRSP process is at present the place where much policy dialogue takes place in poor countries, the selection of participants to be inclusive of all significant groups in society is important. To date, however, the selection process appears to have been a bit ad hoc and not to have been systematically inclusive. 'While participation is one of the underlying principles of the PRSP approach, there are no specific rules about who to include and how the process should work. Under these circumstances, the participation of minorities or indigenous peoples is either often overlooked or simply regarded as impractical due to their marginalization' (Booth and Curran 2005: 11). Participation is also limited by language. Analysis of 27 PRSPs showed that 'in several cases the choice of language limited participation. For example, Cambodia's PRSP was made available in Khmer only in the final version, not in earlier drafts (NGO Forum on Cambodia 2001). In Bolivia some PRSP documents were initially produced only in English (Christian Aid 2001: 13). A Spanish version followed but documents were never translated into local languages (Stewart and Wang 2005).

In any policy dialogue aimed at reducing HIs, the following considerations need to be included:

- that HIs are important and should be monitored;
- exploration of:
  - investment, credit, extension policies to help offset regional imbalances;

- education and health policies aimed at ensuring ethnic/religious and regional balance in access;
- policies to outlaw discrimination including fair employment legislation;
- policies to help disadvantaged groups to realize their legal rights, e.g., via legal aid;
- policies towards rights to land and natural resources to ensure balance in access and benefits;
- policies towards achieving equality in cultural recognition;
- policies to regulate the media to ensure equal access; and
- policies towards civil society;

— consideration of affirmative action policies if these do not contribute enough to reducing inequalities.

This is a long list. In practice, assessment of the country situation should reveal where the priorities are. For example, in Ghana, where the largest socioeconomic HIs are on a regional basis, it is apparent that the major problem is the economic development of the north and integrating it into the southern economy, so infrastructure investment is a priority and assistance in generating productive opportunities in the north, while many of the other requirements in the list seem to be met.

Analysing the content of PRSPs shows universal inclusion of the 'normal' macro conditions, and almost always social sector policies. Gender equity enters in a substantial majority of cases, but protection of ethnic minorities is mentioned in just six out of 27 cases. The cases, where ethnic minorities are *not* mentioned include countries which are evidently heterogeneous, such as Azerbaijan, Benin, Burkina Faso, Chad, Guyana, Malawi, Mali, Mauritania, Mozambique, Niger, Rwanda, Tanzania and Uganda (Stewart and Wang 2005).

The inclusion of horizontal inequalities in policy dialogue thus appears to involve a quite radical addition to the current socioeconomic policy dialogue which, as just noted, is primarily focussed on securing the adoption of 'good' macro-policies, promoting efficient markets, and achieving poverty reduction.

Policies towards *political* HIs are an extremely important aspect of generating an inclusive society. Multilateral donors generally claim not to get involved in overtly political aspects. However, the PRSPs do include policies towards public sector governance and management, with budget management, decentralization, public administration reform and anti-corruption measures as sub-elements. HI considerations could potentially play an important role here, including securing ethnic balance within the public sector at all levels as an aspect of governance reform.

Bilateral donors may be involved in discussions and advice on more explicitly political policies, including the extent of democracy and human rights. Incorporating political balance and inclusiveness into the dialogue on these issues implies analysis and discussion of topics such as the nature of the constitution, the extent of federalism and decentralization and the extent and modalities of power sharing.

At a general level, this represents an addition to (and departure from) the present governance and politics dialogue. As noted, the former consists of policies to secure greater transparency, accountability and responsibility, while the latter is focussed on promoting multiparty democracy. In fact, the simple multiparty democracy message

may be inconsistent with the sort of inclusive government that is required for stability in multiethnic states (Horowitz 1985; Lijphart 1977; Snyder 2000; Stewart and O'Sullivan 1999) while the good governance agenda does not treat issues of political inclusion or exclusion at all.

Public expenditure reviews and poverty reduction budget support (PRSB)

There are a variety of ways in which donors interact with budgetary allocations. In the 1990s, public expenditure reviews (PERs) were introduced: 'PERs simply refer to the method or procedure used to analyse the level and composition of public expenditure. The main objective is to provide recommendations to governments on the composition and (to some extent) size of public spending'.[7] Incorporating HIs into PERs would involve an assessment of the distribution of the benefits of public expenditure by group, although as noted earlier given data problems regional distribution might often have to be used as an initial approximation.

At present, public expenditure reviews do not systematically include any ethnic or regional dimension but, according to Pradhan (1996), involve criteria of efficiency and poverty reduction, aiming to identify whether there is a rationale for public expenditure; and to investigate the impact of alternative expenditure allocations on the poor.

While an appropriately modified PER would provide the informational basis for HI-sensitive public expenditure allocation, influence over actual allocation requires some donor role in budgetary decisions. This role is performed by PRSB which was introduced to deal with the weak connection between PRSP and a country's budget because 'most PRSPs have a tenuous relation at with the procedures for allocating budgets' (Booth and Curran 2005: 3). From a horizontal inequality-perspective, then, an HI sensitive PER could contribute to an HI-sensitive PRBS.

Yet experience suggests that discussions over exclusion are difficult to conduct in general PRBS:

> The experience of many advisers [for DFID] has been that in comparison with support through projects and through PRBS sector support, *general PRBS has reduced the room for policy dialogue on issues that have always been tricky—such as inequality* (Payne and Neville 2006: 9, emphasis original).

Yet, others have stated that the 'the longer preparation processes and in-depth engagement with national governments and other partners inherent in new aid mechanisms such as sectoral and general budget support is providing an opportunity for early engagement on sensitive issues such as gender discrimination' (Macdonagh 2005; Payne and Neville 2006: 10). Although it seems that it is easier to get 'sensitive' issues on the agenda with sectoral rather than general budgetary loans, it is important to supplement sectoral and project donor policies with policies towards and discussion about public expenditure as a whole because HIs go beyond particular sectoral allocations and concern the economy (and budget) as a whole.

To plan expenditure so as to reduce horizontal inequalities requires knowledge of the major HIs in a country, the pattern of non-aid government expenditure, and the

7 See www1.worldbank.org/education/economicsed/finance/public/perev.htm

contribution aid might make—in the light of government public expenditure plans—to offsetting them. A major and difficult issue is to identify what is holding back progress on HIs. In some cases it may be straight forward, e.g., lack of education and credit. But in others, the problem may be low returns on both because of asymmetrical social capital and discrimination. Where the problem seems to be a simple resource one, the aid solution is relatively easy. But with more complex issues related to social capital and discrimination, expenditure alone can do little, and one is back to a situation where a policy dialogue is required.

PER's and budgetary support thus represent an opportunity to assess the distribution of both current and capital public expenditure from an HI perspective and to discuss desirable shifts in its sectoral composition and ethnic/regional allocation. Hence together these could be invaluable instruments for promoting public expenditure that will contribute to moderating horizontal inequalities.

Sectoral and project aid

Sectoral aid is currently disbursed as sector wide approach (SWAP) programmes:

> The defining characteristics of a SWAP are that all significant public funding for the sector supports a single sector policy and expenditure programme, under Government leadership, adopting common approaches across the sector, and progressing towards relying on Government procedures to disburse and account for all public expenditure, however funded (Foster and Mackintosh-Walker 2001: 1)

To date, SWAPs have been concerned with poverty reduction, but not exclusion or HIs: Booth and Curran conclude that 'there appears to be little evidence of exclusion being explicitly addressed in SWAPs' (Booth and Curran 2005: 18); and, moreover, '[t]here has been little systematic thinking about tackling exclusion in SWAPs' (ibid.: 19). Indeed, an analysis of education and the SWAP approach concluded that the shift to SWAPs could make it more difficult to focus on concrete actions for gender equality in the short term (Rose and Subrahmaniam 2005). As far as poverty is concerned, however, Foster and Mackintosh-Walker conclude that 'more encouraging than the results achieved is that the joint reviews conducted as part of the SWAP process have generated analysis and debate that has helped to focus on poverty in Ghana and Bangladesh health and Bolivia agriculture' (Foster and Mackintosh-Walker 2001: ix).

In principle, SWAPs could be a useful instrument for promoting HIs, since they are more specific than the PRSB, and more comprehensive than projects, offering an opportunity for monitoring HIs in particular sectors and reforming resource allocation and policies in the sector. Introducing horizontal inequality-considerations into the process of sectoral planning could contribute to correcting HIs in the sector concerned, even though balance in economic and social access across groups does not necessarily mean balance in every sector—inevitably some groups will be more specialized in agriculture, some in mining or industry. But group balance *is* needed in the provision of basic social sectors (health, education), and in economic infrastructure, so HI considerations are more directly relevant to SWAPs related to these sectors, rather than industry or trade. In the latter, imbalances should be recorded and reasons for them identified, as there may be issues of fair access or affirmative action which should form part of sectoral policies.

While the sectoral analysis of expenditure relates to government and (official) aid expenditures, it is necessary to assess inequalities including all assets and expenditures (private and NGO as well) before expenditure needs can be identified, while projects in particular sectors are included in the general coordinated approach of SWAPs, NGO or private sector financed projects are not usually included.

Where government policy is favourable to redressing HIs, general budgetary support may be sufficient, plus technical assistance if required. However, in situations where the government is unwilling, projects targeted at particular deprived groups may be the most effective approach. Yet, limitations on a project only approach must be acknowledged: first there is the issue of fungibility, which may reduce the net impact of the projects on the deprived group; and second, projects may correct particular infrastructural deprivations, but can mostly do little about unfavourable economic opportunities. Nonetheless, there is considerable scope for exploring types of project most suitable for correcting HIs in generally hostile environments. Such projects might include education and training, credit schemes and marketing assistance specifically directed towards particular groups.

Human rights and social exclusion approaches to aid

Some aid donors and NGOs have begun to adopt a 'human rights approach' (CIDA; DFID; the DAC; Wateraid), while others are considering putting social exclusion at the centre of their agenda (DFID). Both are highly compatible with the HI approach, though much depends on how they are interpreted in practice.

The comprehensive nature of HRs, including social and economic, civil and political, and cultural rights, is consistent with our comprehensive approach to the definition of HRs, which also have socioeconomic, political and cultural dimensions. However, the extent of the consistency depends on the interpretation of an HR-approach (by no means clear despite the fact that it is often talked about). Some put prime emphasis on civil and political rights, ignoring economic and social rights example which form a critical component of HIs. Moreover, the interpretation of civil and political HRs is usually in terms of various political entitlements—to vote, to free speech, to a free press, freedom to practice religion. These can be realized while leaving major imbalances—political liberties, for example, are consistent with total exclusion of minority groups from government, or from the bureaucracy.

If an HR-approach is to encompass horizontal inequalities, it clearly must include social and economic rights. But as with political and civil rights, whether this will be sufficient to encompass HIs depends on the interpretation. Economic and social HRs can be interpreted as involving comprehensive access to certain basic services, which can be consistent with high group inequalities, especially in middle-income countries. Others interpret the realization of HRs as including the requirement of balance among groups (e.g., Wateraid), in which case the approach would contribute to moderating HIs. The principle of 'progressive realization' (i.e., that low-income countries cannot be expected to realize comprehensive economic and social HRs in the short-term) can also leave major imbalances and deprivations. A further issue is how an HR approach is operationalized. Unless the approach becomes embodied in a country's constitution, and then legally enforceable, it means little other than a general aspiration that HRs should be fulfilled. In general, it seems that promoting HRs is certainly complementary with,

and indeed may be regarded as a necessary aspect of, achieving an inclusive society without severe HIs, but it is not generally a sufficient condition.

The adoption of considerations of 'social exclusion' as a principle in aid allocation is also generally consistent with an HI approach. It is still at an early stage, so precise interpretation is not possible. In principle, however, political and economic inclusion is a necessary aspect of a social exclusion approach, as it is for an HI approach (DFID 2005; Stewart 2004).

5 Country case studies: Ghana and Nepal

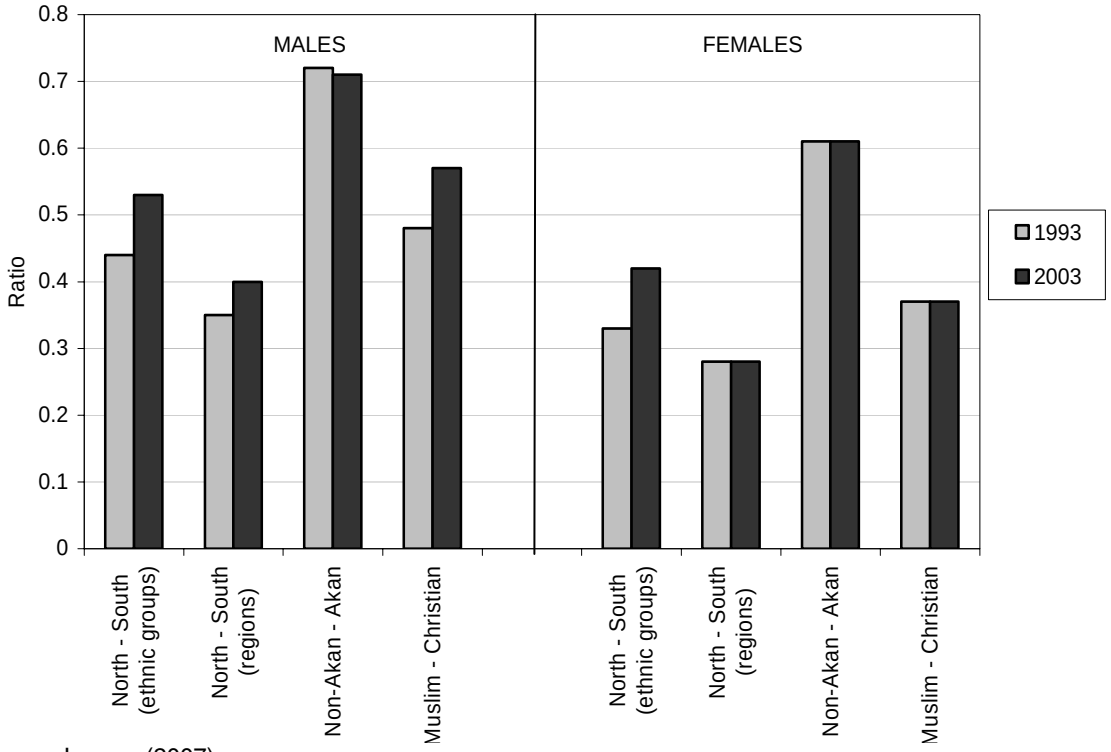
5.1 Ghana

The first task in any country analysis of HIs is to define the relevant groups. As discussed earlier, it is always difficult, and usually somewhat arbitrary, to delineate the relevant groups for measuring HIs. Among the many ways of classifying people, ethnic group, religious affiliation and region each seem to be salient in Ghana. In response to a survey in which people were asked how they saw themselves, religion was the most important consideration in private life (e.g., in relation to marriage), while ethnicity was most important with respect to public decisions about jobs, contracts etc.[8] From this analysis it would seem that both religion and ethnicity are relevant ways of grouping people in Ghana, as both have significance for their self-perceptions and for their view of public/political behaviour. Region as such seems to be less important to people, but given the regional concentration of people of different ethnicities and religions, it may be useful as a proxy in measurement and regional policy may also be a way of targeting particular ethnic groups.

In Ghana, the sharpest socioeconomic HIs among major ethnic groups are between northern groups and others; corresponding to this, there are also horizontal inequalities between Christians and Moslems, the latter being concentrated in the north, and between the northern regions and the rest of the country. These are illustrated in Figures 3, 4, and 5, showing the ratio of achievements of northern groups to southern groups, including the performance of northerners who have migrated to the south; the ratio of the northern region to the southern region; that of the major southern group, the Akan to all others in Ghana; and of Moslems (who are concentrated in the north, but even there only account for a minority of people) and the Christians. Each criterion—child mortality, white collar employment, and the wealth of the bottom and top quintiles—shows serious horizontal inequalities for each of the alternative groupings. The regional inequalities are generally worst, with the ranking of the other groupings varying according to the indicator and the year. Even though regional inequalities are worst, the other inequalities need to be taken seriously because they reflect people's perceptions of their identities and of public behaviour, and political mobilization is more likely to occur along these lines.

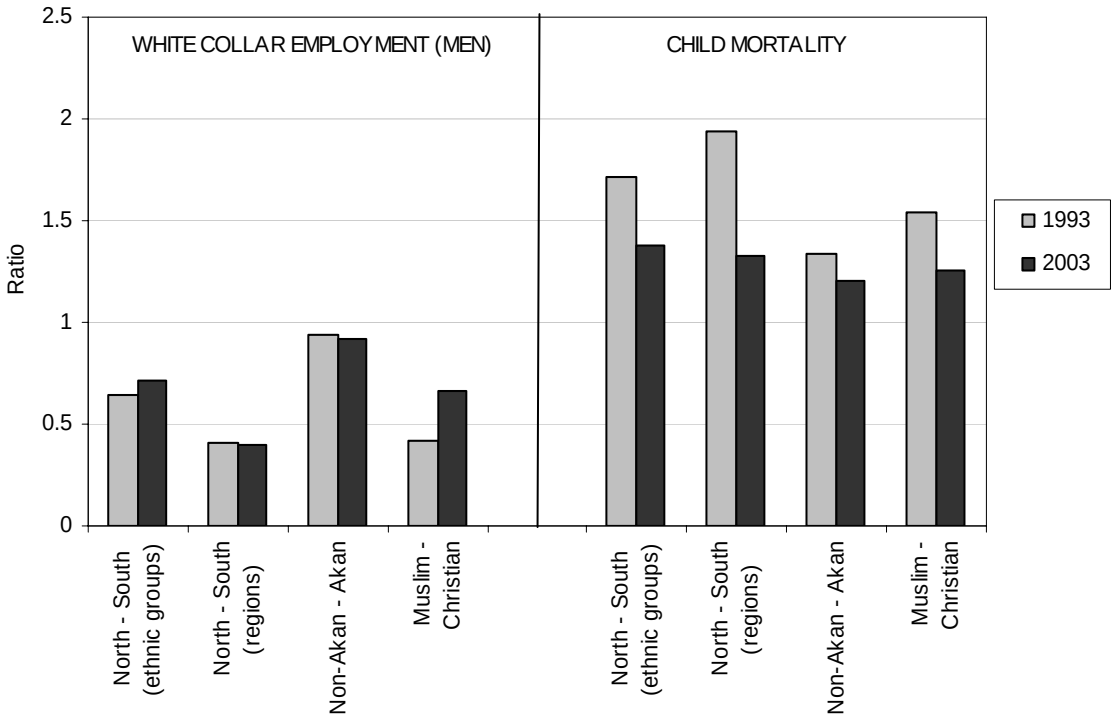
8 The survey conducted by CRISE covered 600 households in three urban areas in different parts of Ghana. For preliminary results, see Langer (2007).

Figure 3
Ghana: Horizontal inequality, years of education (male and female), 1993 and 2003



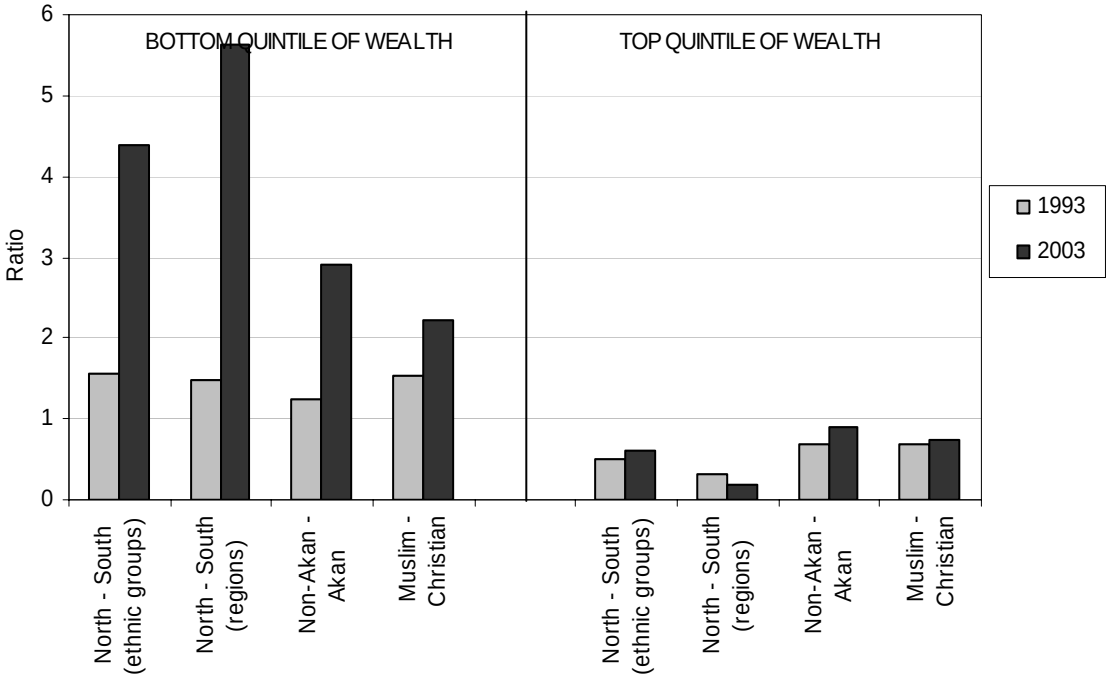
Source: Langer (2007).

Figure 4
Ghana: Horizontal inequalities in white collar employment and child mortality, 1993 and 2003



Source: Langer (2007).

Figure 5
Ghana: Group presence in bottom and top quintiles of wealth



Source: Langer (2007).

Ghana's inequalities have worsened over time: estimates indicate that the infant mortality rate of Northern territories was 1.26 of the national average in 1931, compared with 1.73, 1.29 and 1.59 in the Northern Region, Upper Western Region and Upper Eastern Region respectively in 1993 (Stewart and Langer 2006). In the more recent past (1990s), the inequality in child mortality has been declining for all groupings, educational inequalities have shown little change in the Northern and Upper West regions and a small improvement in the Upper East, but the northern/southern regional inequality worsened on the wealth index and slightly on white collar employment, and also with respect to the depth and intensity of poverty (McKay and Aryeetey 2004; and Table 2).

The source of this inequality comes from both imbalances in the provision of government services and in patterns of economic development. Historically, the colonial regime favoured the south in the provision of services education, health and economic infrastructure—partly because the climate was more favourable to the main export crop, cocoa. The inherited imbalance in government-provided social and economic infrastructure continued post-independence, as well as the focus on cocoa. The limited industrialization that occurred during the period of import-substitution was also concentrated in the South, where infrastructure and educated manpower were available. Although the government proclaimed the need to redirect resources to the North, and undertook some large but rather unsuccessful development schemes in the North, the inequalities in service provision continued, with primary enrolment at 40 per cent or less and access to health services 20 per cent or less by 1997, substantially below the national average; access to electricity in the Northern, Upper West and Upper Eastern Regions was 16 per cent, 13 per cent and 9.0 per cent respectively, the lowest in the country—the national average at that time was 27.1 per cent; trunk road availability for the Northern Region was also substantially below the national average (government of

Table 2
Ghana: Horizontal inequalities by region, various years

	Incidence of poverty (%)[a]		Incidence of poverty as a ratio to national		Literacy (% literate)[b]		Literacy as a ratio to national average	
	1992	1999	1992	1999	1993	1998	1993	1998
Western	60	27	1.15	0.68	37	54	1.10	1.10
Central	44	48	0.85	1.20	43	55	1.26	1.08
Greater Accra	26	5	0.50	0.13	60	76	1.76	1.49
Volta	57	38	1.10	0.95	46	58	1.35	1.37
Eastern	48	44	0.92	1.10	46	66	1.35	1.29
Ashanti	41	28	0.79	0.70	31	64	0.91	1.25
Brong Ahafo	65	36	1.25	0.90	30	53	0.88	1.04
Northern	**63**	**69**	**1.21**	**1.73**	**8**	**13**	**0.24**	**0.25**
Upper West	**88**	**84**	**1.69**	**2.10**	**12**	**20**	**0.35**	**0.39**
Upper East	**67**	**88**	**1.60**	**2.20**	**8**	**20**	**0.24**	**0.39**
National	52	40	1.00	1.00	34	51	1.00	1.00

Notes: a) Data drawn from Songsore (2003). The poverty line was the same in both years, i.e., Cedi 900,000 per adult per year;

b) Authors' calculations based on data from the 1993 and 1998 Demographic and Health Surveys;

Ghana 2003: 191). The relative economic success of the post-1983 period, with a per capita growth rate of 2.0 per cent per annum from 1990 to 2002, was largely based on the resuscitation and expansion of traditional exports, cocoa and gold, with some expansion of tourism and increasing reliance on remittances. Consequently, the regional distribution of the benefits of growth was again concentrated in the cocoa growing areas, and neglected the North. All the evidence shows that the rural savannah in the north did least well, as prices, incentives, technology and extension favoured cash crops and neglected subsistence agriculture. As McKay and Aryeetey (2004: 35), point out 'not surprisingly, the poorest regions in Ghana are those that have little or no produce in the basket of tradables, or infrastructural constraints are such as to prevent them exporting profitably'. According to Foster and Zormelo (2002), 'The poorest farmers have received minimal attention'. The large (and growing) economic horizontal inequalities (indicated by relative wealth and poverty) attest to this economic division.

Aid to Ghana therefore needs to be assessed against a background of high, and in some respects growing, economic and social HIs, which is a reflection of imbalances in infrastructure and in economic returns associated with patterns of specialization.

Overall flows of aid to Ghana fell to almost zero in the period of political instability and economic stagnation, pre-1983. From then it rose, particularly after 1986 until 1992 (when aid accounted for around 9 per cent of GDP), after which both commitments and disbursements declined following the post-election macroeconomic imbalances. Aid growth resumed in 2002. Donor support accounted for more than 40 per cent of government expenditure in 1990-93, and then fell to around one-third (Foster and Zormelo 2002). In 2002, it amounted for 11 per cent of GDP, 54 per cent of gross capital formation, 19 per cent of imports and 35.5 per cent of government expenditure (2001). From the mid-1980s, aid flows have provided most of the finance for

government investment. Aid has grown recently, with enhanced HIPC debt relief agreed in 2005, representing US$3.5 billion in nominal terms.[9]

After the introduction of structural adjustment in the mid-1980s, multilateral aid grew from less than 10 per cent (in the 1970s) to almost 85 per cent of gross aid in 1996 (Tsikata 1999). More recently, bilateral aid accounted for a growing proportion, estimated at nearly 60 per cent of total net ODA in 2002 (UNDP 2004a). Multilateral aid has included access to IMF standbys, the extended fund, structural adjustment and enhanced structural adjustment facilities. World Bank lending has taken the form of reconstruction support, export rehabilitation, sectoral loans to health and education, industry, financial sector, agricultural sector, private sector development and structural adjustment. Over 40 per cent of World Bank support has been in the form of programme loans (structural or sectoral adjustment support or rehabilitation loans).

A good deal of bilateral aid has been project support. However, in 2003, a number of donors agreed to provide multi-donor budgetary support (MDBS).[10] The MDBS aims to agree on 'a common benchmark against which performance is assessed', improving dialogue of donors with the government of Ghana, and making disbursements conditional on meeting agreed targets (Quartey 2005: 9). The Ghana poverty reduction strategy, itself drawn up after consultation with donors and others, provides the framework for the MDBS. It is hoped that this framework will contribute to seeing that aid contributes to agreed objectives and that aid flows are more predictable than previously.

Aid to Ghana, therefore, could potentially have a strong influence on HIs, in many of the ways discussed in section 4 of this paper. In the first place, aid accounts for a large proportion of government expenditure (over a third) and a much larger proportion of capital expenditure, which gives donors a significant influence. Second, both programme and sectoral aid (now including MDBS) offers an opportunity to influence development targets and monitoring; third, project aid can be directed towards correcting HIs, so long as fungibility is avoided.

The need to tackle regional, if not ethnic or religious, inequalities is well accepted—if only as an essential aspect of any poverty-reduction strategy, since poverty in the North is growing and requires direct targeting. The 2003 GPRS made considerable efforts to drawing attention to the significant north/south disparities and acknowledged the need to correct such inequalities. This is much less in evidence, however, in the recent version, although it too provides some data on disparities. Yet neither document contains any concrete policies specifically towards correcting these disparities. Almost all policy recommendations are made in general terms, directed at achieving macro-balance, promoting growth, improving efficiency and accountability, and reducing poverty. In the list of 52 indicators for monitoring progress in the 2003 document, only

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9 Of this, IDA is to provide US$1.4 billion in debt service relief under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative, via a two-thirds reduction in debt service on IDA credits from 2002 to 2022. The rest will be provided by debt relief granted by the IMF (US$112 million in NPV terms from 2002 to 2009) and bilateral and other multilateral creditors will also contribute, some beyond the enhanced HIPC Initiative (World Bank, News Release no. 2005/21/PREM).

10 Agreed by the World Bank, the African Development Bank, Canada, Denmark, the EU, Germany, the Netherlands, Switzerland and the UK.

one has a regional dimension: adding 'with emphasis on the three northern regions' to the indicator 'percentage of deprived basic schools improved' (government of Ghana 2003: 179).The 2005 document has not a single mention of a regional dimension, and neither report makes any reference to ethnic or religious HIs.

A 2004 analysis of 'Development Partners in Ghana' (UNDP 2004a) records the stated objectives of every donor. None of the eight bilateral donors makes any reference to horizontal inequalities. However, a third of the multilateral donors do. The EU refers to 'support for agricultural development in the form of technical assistance in the Northern Region and to micro-projects in the most deprived districts of the country' (UNDP 2004a: 44). FAO refers 'support to increase food security in northern regions' (ibid.: 54). The UNFPA declares that its programmes are given emphasis in the northern and central zones in aiming at 'minimizing spatial inequalities in access and reduce the development disparities between the north and southern regions of the country' (UNDP 2004a: 68). UNICEF's District and Community Capacity Enhancement programme is focussed in six districts in the north (ibid.: 72). The World Food Programme targets its assistant to northern savannah areas (ibid.: 79). The African Development Bank refers to the objective of reducing geographical inequalities in education and health (ibid.: 40). However, the most important partner—the World Bank—makes no reference to any kind of inequality.

It might be argued that rhetoric is unimportant, and indeed that reducing horizontal inequalities would inevitably be a part of an effective poverty reducing strategy in Ghana. But this is unconvincing in view of the patent failure to achieve any such reduction after twenty years of heavy donor involvement. Taking just the 1990s, there was some improvement in the child mortality ratio, and a slight improvement in the literacy ratio, but a worsening in the income/wealth and poverty ratios. One interesting outcome, however, is that indicators of nutrition appear to have improved in the three northern regions between 1997 and 2003 while they worsened elsewhere and at a national level (Cavalcanti 2004), suggesting that the donor-driven feeding programmes in the north were successful.

Several reasons can be advanced for the failure to narrow differentials significantly, despite some rhetoric favouring it and the fact that poverty reduction programmes should have encompassed the poorest regions in the country. A first reason is that weak links between targets and expenditure imply that the poverty-reducing rhetoric (and ex-hypothesis regional inequality) was not translated into on the ground decisions. A second reason is that HIs cannot be achieved without specific targets related to horizontal inequalities (i.e., just assuming they can be subsumed in other targets is not effective in reducing HIs). A third reason is that, despite rhetoric and a number of projects in the north, the nature of most important aid loans and particularly aid policy actually enhanced rather than reduced horizontal inequalities. There is evidence to support all three reasons.

The weak link between statements, plans, policies and actual budget decisions in Ghana is demonstrated by Foster and Zormelo (2002). They report that 'The linkage from the plan to the expenditure allocations in the budget and the medium-term expenditure framework was purely notional, and the plan did not prove to be all that helpful in determining priorities'; 'there is broad agreement that the MTEF has not so far produced the intended results', with total expenditure differing from budget figures. One study found that 37 per cent of Cabinet decisions were not implemented, mainly

because of lack of funds. They conclude: 'The separation of responsibility for planning and for budgeting has resulted in plans which could not be implemented, and budgets which lacked strategic direction' (Foster and Zormelo 2002: 4, 8, 36). The dysfunctionality of the process linking plans to expenditure is enough, in itself, to explain the failure to realize the Constitutional requirement of achieving inclusive development.

Second, subsuming the objective of reducing HIs under the poverty reduction objective is not likely to be an effective way of achieving improved HIs. This is because poverty is pervasive (including in the south) and achieving the accepted MDG target of halving poverty can most easily be achieved by reducing poverty in the south, where economic and social infrastructure is available and where there are more economic opportunities, rather than tackling the much more intractable problems in the north. Indeed, the evidence indicates that national poverty has been reduced by this approach. This suggests that if the objective is to reduce particular HIs, these must be targeted directly.

Third, most of the economic policies advocated by donors have accentuated, not diminished horizontal inequalities. The macro policies involved in both the early structural adjustment loans and subsequently the Ghana poverty reduction strategy (GPRS, in effect Ghana's PRSP) put prime emphasis on exports in terms of incentives (through the exchange rate) and of extension and technology, while export agriculture in the south received additional incentives and resources, the fertilizer subsidy, which benefited all agriculture, was abolished. Hence the economy was tilted towards the tradables produced in the south and against the non-tradable subsistence agriculture of the north. Moreover, the incomes arising from success in export agriculture provided further opportunities (growth linkages) in the surrounding areas while the stagnant north generated no such opportunities. For example, from September 1994 to December 2005, the three northern regions received 1.29 per cent of the total private foreign investment projects in terms of numbers of projects (values are not available) (GIPC 2006). Many of the more dynamic and educated people in the north, facing such limited opportunities, migrated to the south, depleting the north of some of the limited human capital it had acquired.

It could be argued that, given the economic situation facing Ghana, donors and the government had little choice but to promote exports and that this unavoidably discriminated against the north because of the way comparative advantage had developed in Ghana in the colonial era. We are not trying to gainsay this argument, but rather to point out that any effort to counter HIs must look at the whole of economic policy (macro and meso), and where it seems likely to worsen horizontal inequalities, special attention is needed to counter this. While much project aid, especially that supported by NGOs, has been concentrated in the north in recent years, it does not seem that aid effectively reduced HIs, because the macro-policies that were supported by aid worked to further regional economic differentials. The extra schools and health centres financed by aid helped reduce some of the social inequalities but did virtually nothing for the economic inequalities—this needed a far greater effort on infrastructural development, credit, technology and markets.

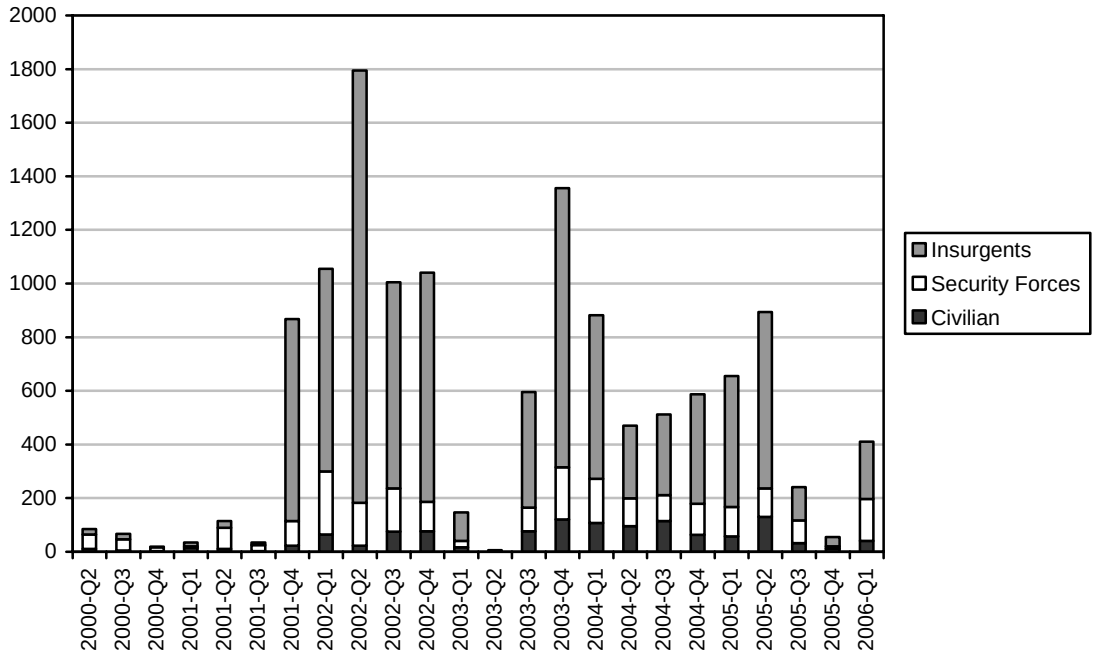
One reason for paying attention to horizontal inequalities is the possibility of political mobilization behind acute His, as has happened in the context of the similar north-south divide in neighbouring Côte d'Ivoire. For Ghana as a whole, such political mobilization has not happened for several reasons. First, political power has been shared to a much

greater extent than economic (Langer 2005). Second, there are divisions within the north, both ethnic and religious, which make mobilization more difficult. Indeed, the greatest mobilization and violent conflict has occurred between groups in the north, themselves facing their own HIs (Jonsson 2006; Seini and Tsikata 2005). Third, the north accounts for only a relatively small proportion of the total population (17 per cent) in contrast to both Côte d'Ivoire and Nigeria, so northerners do not have the prospect of taking over the government, while the north's economic impoverishment makes separatism unattractive. Nonetheless, the persistent and sharp HIs are clearly undesirable in themselves, and offer potential for support for violent conflict, which may emerge, not from the North as initiator, but from other fault lines in Ghanaian society. Any such initiator would find it relatively easy to mobilize deprived northerners behind their cause.

5.2 Nepal: shutting the stable door?

Over the past decade, Nepal has been ravaged by the communist insurgency which has controlled large parts of the country over the past few years. Launched in February 1996 by the Communist Party of Nepal-Maoist (CPN-M), the insurgency intensified in 2000 and is estimated to have claimed around 13,000 lives since then (Figure 6). A ceasefire was agreed in November 2005 after massive demonstrations in Kathmandu forced the king to restore parliament, which he had suspended unilaterally in February 2005, claiming it was unable to counter the insurgency effectively.

Figure 6
Nepal: Conflict fatalities, 2000-06



Source: Data compiled by the South Asia Terrorism Portal: Available at: www.satp.org/satporgtp/countries/nepal/database/fatalities.htm

The Nepalese experience with inequality, aid and conflict appears to be a classic case of 'shutting the stable door after the horse has bolted'. Based on the mounting evidence that the insurgency was largely driven by horizontal inequalities (Do and Iyer 2005; Murshed and Gates 2005; Macours 2006), aid agencies and donors are now taking such inequalities seriously in their country assistance strategies, in marked contrast to their previous stance, which paid little or no attention to horizontal inequalities, except in terms of gender exclusion. Nepal is thus an example where consideration of horizontal inequalities in aid formation prior to the emergence of conflict might have been instrumental in preventing it from emerging.

Mapping HIs: the nature and extent of horizontal inequalities

Nepal is a highly diverse country, with many interlocking identity groups: caste, ethnic, religious, regional and linguistic (Whelpton 2005). In 1854, an official civil code (*Muluki Ain*) formalized the Hindu caste hierarchy and, in a marked difference from the Indian experience, attributed each non-caste group—indigenous *Janajati* ethnic groups and others, such as Muslims—an explicit place within this hierarchy (Höfer 1979). Although the democratic constitution of 1990 expressly forbade discrimination on caste grounds, caste remains a significant barrier to social mobility, particularly for the 'untouchable' *Dalit* castes. A recent survey of caste discrimination found that almost half (46.4 per cent) of Dalit respondents encountered difficulty selling milk from their cattle due to their untouchable status (Johnsen 2002; quoted in Pradhan and Shrestha 2005: 8). The UN Committee on the Elimination of Racial Discrimination has noted that while 'the caste system in Nepal has been abolished by law … this system still functions and appears embedded in parts of the Nepalese culture' (CERD 1998: para. 10). In addition to caste differentials, ethno-linguistic minorities also suffer severe exclusion. Between 1996 and 2004, poverty dropped by 26 per cent across Nepal, but the non-caste hill *janajati* groups and Muslims recorded, respectively, drops of only 10 per cent and 6 percent. In contrast, poverty among the untouchable Dalit caste fell by 20 per cent, although they remain slightly poorer than the *janajati* and Muslims in absolute terms (Bennett 2005).[11]

Table 3 reports horizontal inequalities by caste and ethnic group across four dimensions of socioeconomic performance in 1996, the earliest available data, collected shortly before the outbreak of the insurgency. Across all four dimensions, the Newar and Brahmin come out clearly and consistently as the top two groups, with the Chhetri third in three dimensions, although they have a poverty rate well above the national average, suggesting that within-group inequality among the Chhetri may be particularly marked. The position of Newar requires some qualification, as more than half the Newar live in the Kathmandu valley, which is their place of origin.

Using data from the two Nepal Living Standards Survey in 1996 and 2004, Salvi del Pero (2005) examines income inequality between what she terms the 'majority groups'—the Brahmin, Chhetri, and Newar—and the rest of the population. Using a Theil decomposition, she finds that the between-group component of overall income inequality has trebled over this period. Moreover, even holding for education, landownership and other socioeconomic variables, her regression analysis shows that 70

11 Gender exclusion is also severe; women occupy a very low status in most Nepalese societies, irrespective of ethnicity or caste.

per cent of the gap between the 'majority groups' and the rest of the population is unexplained, which she attributes to discrimination. It is important to note that the period between the two survey coincides with the emergence and escalation of the Maoist rebellion, so it is difficult to know whether this increase in inequality was a cause, an effect, or both.

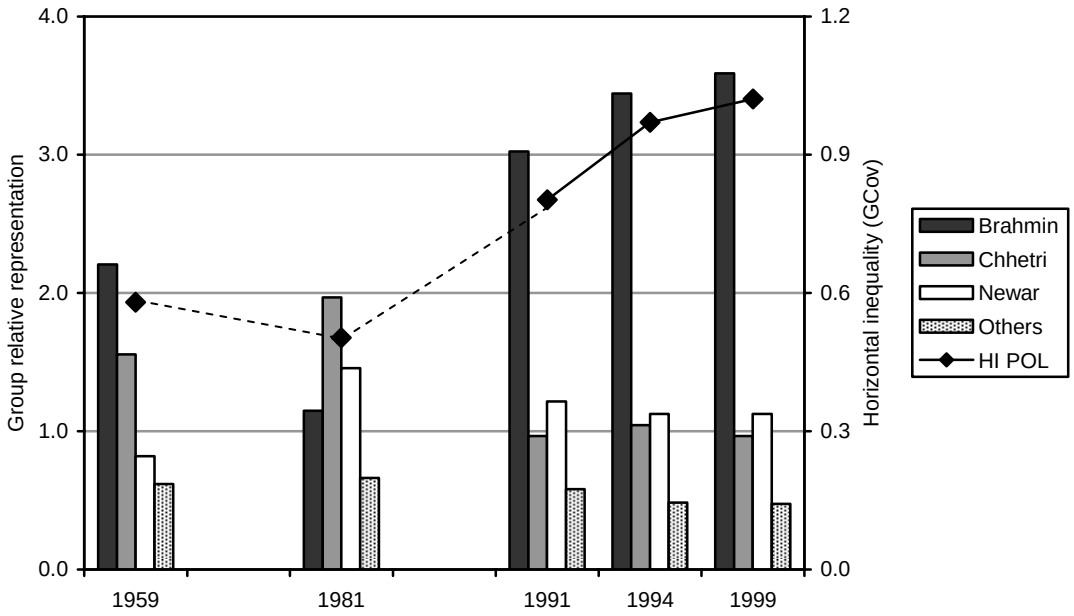
In the political dimension, horizontal inequalities along caste/ethnic lines are also evident and increasing. Figure 7 shows the relative representation of the three dominant

Table 3
Nepal: Horizontal inequalities by major caste and ethnic group across four dimensions (as ratio to national mean), 1996

	Per capita income		Poverty rate (inverted)		Adult literacy		Mean years of schooling	
Caste/ethnic group	Value	Rank	Value	Rank	Value	Rank	Value	Rank
Newar	**1.558**	1	**1.818**	1	**1.492**	2	**1.939**	2
Brahmin	**1.293**	2	**1.311**	2	**1.580**	1	**2.062**	1
Chhetri	**1.009**	3	0.909	6	**1.144**	3	**1.236**	3
Rajbansi, Yadav, Tharu, Ahir	0.901	4	0.998	4	0.749	5	0.754	5
Gurung, Magar, Sherpa, Rai, Limbu	0.861	5	0.790	7	0.959	4	0.897	4
Muslim	0.826	6	**1.185**	3	0.602	7	0.602	6
Occupational castes (Dalit) [a]	0.644	7	0.957	5	0.648	6	0.545	7

Note: [a] Figure for poverty rate among occupational castes includes other non-listed groups.
Source: Authors' calculations, based on NESAC (1998).

Figure 7
Nepal: Caste/ethnic representation in national parliament, 1959-99



Note: Population figures used for calculation of relative representation are those from the 1991 census.
Source: Authors' calculation, based on Baral (1983; 2005) and NESAC (1998).

groups caste groups (the Brahmin, the Chhetri and the Newar) against all other groups in the national parliaments formed after the democratic 'experiment' in 1959 and the three elections between democratization in 1990 and the suspension of parliament in 2002. Also included is the national level *panchayat* of 1981, which was not democratically elected. In the 1959 elected parliament, the Brahmin and the Chhetri dominated, but this has been replaced in the post-democratization period by an increasing dominance of parliament by the Brahmin alone. In 1999, Brahmin accounted for almost half the seats in parliament, despite forming around 13 per cent of the population. Interestingly, the non-democratic national *panchayat* of 1981 was far more ethnically representative than any of the democratic parliaments, although it was still highly biased. In this respect, Dahal (2000a: 122) has noted that:

> one of the positive elements of the Panchayat regime was that in the name of election, they used to make selection from people of different social strata, including the occupational caste, ethnic/tribal groups, and the Madhesiya groups, as members of the Rastriya Panchayat.

In the bureaucracy, the recruitment of third class officers in government has reflected this political dominance (Figure 8). In 1984-85, the three dominant groups accounted for more than two-thirds of new recruits. This situation worsened, despite democratization in 1990. In 2001-02, more than 95 per cent of recruits came from these groups. The decline in the over-representation of the Newar also reflects their relative decline in parliament since the 1981 panchayat. Unfortunately, these statistics are not disaggregated between Brahmin and Chhetri, so it is impossible to see whether the increased dominance of this group has been particularly in the hands of the Brahmin, as it has been in parliament.

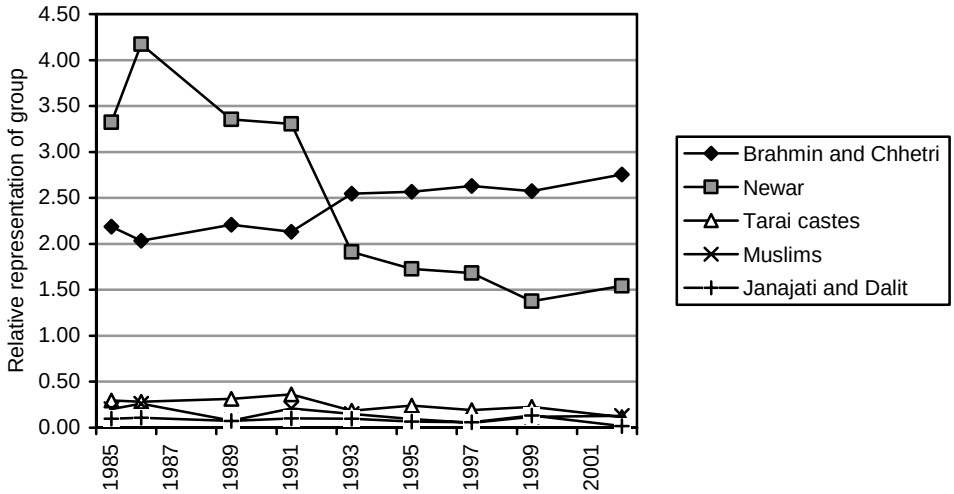
In part, this bias is evidence of the problem of the *persistence* of horizontal inequalities—lower caste and disadvantaged ethnic groups have poorer access to education and thus are less likely to possess the human capital necessary to fill high-ranking positions. Not least here is the requirement to speak Nepali, which is the national language, although it is the mother tongue of only around half the population. The post-democratization period has seen language and linguistic identity become increasingly politicized, largely for this reason. Thus far, however, a number of legal challenges to the official dominance of Nepali have come to naught (Dahal 2000b).

Whelpton (1997: 50) notes the 'overwhelming predominance of a Partabiya ['hill caste', of which the Brahmin and Chhetri are the highest]-Newar elite in Nepalese society', and the data presented here confirm this analysis. It is clear that across the socioeconomic and political dimensions, the Brahmin, Chhetri and Newar enjoy considerable dominance, with the Newar particularly well-off in the economic dimension and the Brahmin increasingly dominant in the political dimension.

Regional inequalities have also attracted considerable attention in Nepal, particularly in the light of the Maoist insurgency. Separate statistical investigations have found that variations in the intensity of the insurgency at the district level are highly correlated with 'spatial horizontal inequalities' in level of human development (Murshed and Gates 2005) and with increasing inequalities in land ownership in particular (Macours 2006).

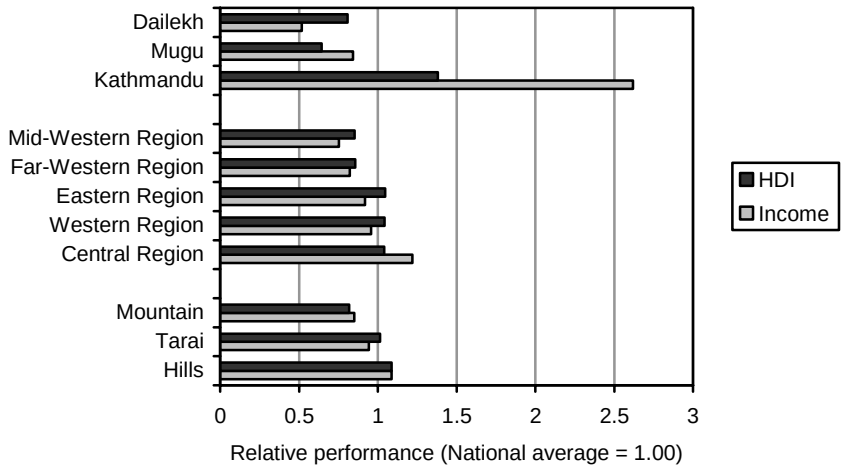
Figure 9 shows the level of regional disparity in income and human development index (HDI) according to different types of aggregation: by district (only the highest and lowest scoring districts are reported); by development region; and, by ecological zone. Unsurprisingly, disparities are greatest at the lower district level of aggregation, with the national capital, Kathmandu, performing best and two mid-western districts performing worst in, respectively, HDI and mean income terms. What is more surprising is that the disparity between the ecological zones, particularly in terms of income, is slightly less than that between the development regions. Using the GCov measure of regional inequality, income inequality between the development regions is almost twice that of the ecological zones (Table 4). This is important, because much of the regional development strategy in Nepal has historically been focused on expanding development in the hill and mountain zones rather than across the development regions.

Figure 8
Nepal: Representation of caste/ethnic groups
in the recruitment of gazetted third class officers, 1984-85-2001-02



Source: Authors' calculations, based on UNDP (2004b: 178).

Figure 9
Nepal: Regional disparities in income and human development, 2001

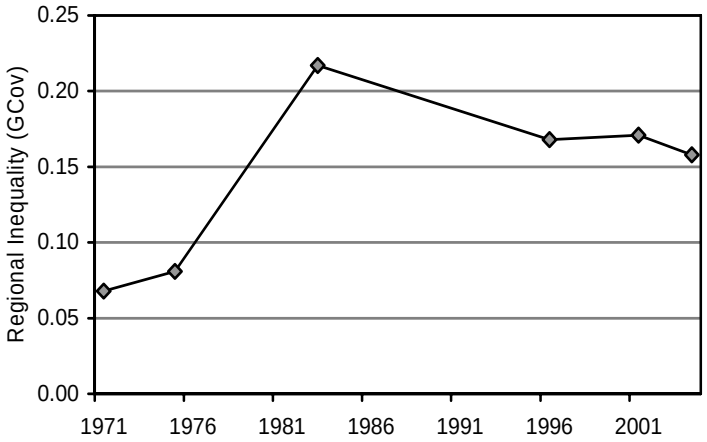


Source: Authors' calculations, based on UNDP (2004b).

Table 4
Nepal: Regional inequality index (GCov), 2001

	Income	HDI
Development regions	0.171	0.078
Ecological zones	0.081	0.076

Figure 10
Nepal: Regional income inequality, 1971-2004



Note: As the mid-western region had not been created when the earlier data were compiled, it has been aggregated with the Far Western Region in the later period to ensure comparability.

Source: Authors' calculations based on Amatya (1987); NESAC (1998) and Gurung (2005).

Figure 10 shows the evolution of income inequalities between the development regions since 1971. Regional inequality rose significantly between 1971 and the early 1980s, then falling somewhat until the mid-1990s, after which it has remained essentially static. The drop in regional inequalities coincides with a period in which the Nepalese government started taking regional inequality more seriously. Although previous official publication had addressed the issue of regional inequality (e.g., Gurung 1969), the Plan documents had paid it scant attention until the Seventh Plan, which dedicated an entire chapter to redressing regional inequalities and distributed development funds accordingly. Nonetheless, regional inequalities remain severe and, as already noted, empirical investigations show them to have been related to the intensity of the insurgency.

Foreign aid and horizontal inequality

Nepal has a long history of high dependence on foreign aid. The country's first development plan, the First Five Year Plan (1956-61) was entirely funded by financial assistance; the current Tenth Plan (2002-07) is more than 60 per cent funded by aid (Shrestha, Shrestha and Bhatt 2004: 8). Aid to Nepal as a proportion of GDP peaked in the mid-1980s, at around 7 per cent, falling to below 4 per cent in 2001. Outstanding foreign debt in the country has remained at around 50 per cent of GDP since 1990 (Figure 11).

From virtually nothing prior to 1970, multilateral aid to Nepal grew rapidly to constitute around 80 per cent of ODA in the mid-1970s, before falling off again after

democratization in 1990. In 2003-04, bilateral aid constituted 67 per cent of total aid flows, of which around 20 per cent apiece (i.e., around 14 per cent of total aid) came from Japan, the UK and Germany. Most of the multilateral aid came from the IDA of the World Bank, which constituted 62 per cent of multilateral aid, or around 20 per cent of total aid in 2004. The second significant multilateral aid donor was the Asian Development Bank (ADB), which gave 20 per cent of the total multilateral aid. After the king's assumption dissolution of parliament, many donors withdrew support; it can be presumed that aid flows will resume following the restoration of constitutional democracy in April 2006.

The multilateral donors currently operating in Nepal *are* taking horizontal inequalities seriously, but this is a very recent development, despite the Nepalese government's own attempts to address regional inequalities since the mid-1980s. Moreover, throughout much of the recent period, donor strategy and conditionality were mainly linked to macro-economic and governance reforms. The World Bank's 1998 country assistance strategy (CAS) proposed three different levels of lending: a 'low case' of up to US$150 million; a 'base case' of US$200-350 million; and, a 'high case' of US$400 million or above. The triggering factors for increased levels of lending were almost entirely related to macroeconomic reforms aimed at increasing domestic revenue and reducing domestic borrowing, including the 'satisfactory implementation of VAT'. None of the conditionalities related to inequality in any form (World Bank 1998: Annex A1).

The contrast between this and the 2003 World Bank CAS is marked. The 2003 CAS acknowledges in its opening paragraphs that 'there are significant ethnic and caste-based disparities' (World Bank 2003: 7). Consequently, the Bank included 'social inclusion and targeted programmes' as one of the four 'pillars' of its new strategy, which includes three main aspects: 'equitable education', 'improved fiscal transfers to disadvantaged groups' and 'a civil service that better reflects the gender, caste and ethnic diversity of Nepal' (ibid.: 32). Social inclusion was also included as a 'cross-cutting issue' which would be addressed in all programming. The new lending triggers in this document include 'strong measures implemented to improve access to basic education' among disadvantaged groups as a conditionality for the release of higher lending (ibid.: 39).

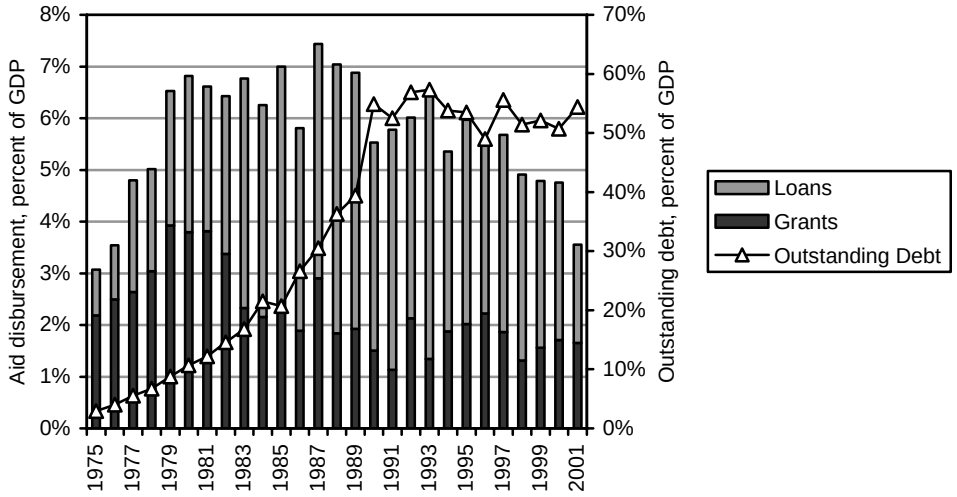
An almost identical story can be told of the Asian Development Bank's country strategy documentation. The ADB country assistance plan for the period 2000-02 (ADB 1999) contained scant reference to inequality or social disparity of any sort, merely reporting gender and regional disparities in passing. In contrast, the current country strategy and programme for 2005-09 (ADB 2004) pays considerable attention to horizontal inequalities, identifying 'Inclusive Social Development' as one of the three 'pillars' of their country strategy. Similarly, the UK Department for International Development states in its current CAP that the 'overall purpose of UK development assistance to Nepal is to reduce poverty and social exclusion' (DFID 2004: 13).

This belated recognition of social inclusion as an important dimension of development by donor agencies working in Nepal related to evidence that socioeconomic disparities on a regional and caste/ethnic basis were a fundamental cause of the Maoist insurgency and an important factor in accounting for variations in its intensity. The various assistance plans that 'mainstream' social inclusion were all produced after the escalation of the conflict in 2000. Likewise, the Nepal government's own Tenth Plan, which also served as the country's PRSP (NPC 2003), formulated in consultation with donor

agencies, and also with domestic stakeholders, also recognized 'regional, gender, ethnic and caste-based inequalities' as an 'underlying cause' of the conflict and thus an important area to be addressed.

The experience of Nepal, then, is extremely instructive for the argument we are making here. Although scholars and, to some extent, development planners within Nepal were aware of the seriousness of increasing regional inequalities by the mid-1970s, these inequalities were largely unaddressed by donor agencies. Moreover, ethnic and caste inequalities were almost completely neglected by domestic and international partners alike. Even after the outbreak of the insurgency in 1996, country assistance strategies continued to focus on typical issues of macroeconomic stability and revenue collection and privatization. Donor concern over horizontal inequalities emerged only after the conflict reached such intensity that the fundamental development of the country was endangered and the body of evidence that horizontal inequalities were a major cause of this conflict became incontrovertible. If the reduction of severe horizontal inequalities was included as a major objective of aid agencies in their policies towards all countries, irrespective of whether they appeared to be at risk of conflict, and consideration of horizontal inequalities were 'mainstreamed' into all development projects, it is likely that such stable-door shutting could be avoided.

Figure 11
Nepal: Aid disbursement and debt as a proportion of GDP, 1975-2001



Source: Computed from Shrestha, Shrestha and Bhatt (2004: 9-10).

6 Conclusions

Addressing HIs should be an important part of development policy in multicultural societies with severe inequalities. This is true whether or not a society appears to be fragile, or has suffered or is suffering conflict. Nepal provides an example where aid to address HIs might have prevented conflict breaking out if it had been carried out early enough. In Ghana too, currently a stable country, horizontal inequalities should be taken seriously to prevent them becoming a source of mobilization. Moreover, HIs can be an important element in causing intractable poverty which will not be tackled without a

direct assault on the severity of horizontal inequalities. Both Ghana and Nepal exemplify this.

Aid has an important role to play here, especially in countries where it accounts for a large proportion of government resources and thus can be expected to have a considerable influence over patterns of development. To achieve this, in some countries aid donors will have to be prepared to try to influence development objectives in countries which have not themselves chosen to tackle horizontal inequalities. This goes against current rhetoric of participation and ownership, though the practice aid shows that donors still do exert considerable influence over development policy in many areas.

This paper has argued that for the most part HIs have not formed part of aid policy. Indeed, sometimes aid policies have exacerbated HIs, albeit probably unintentionally, as in the case of structural adjustment in Ghana. Exploration of current aid instruments shows many ways in which aid could contribute towards changing HIs if there were a decision to do so. In general, making the reduction of HIs an objective of aid policy would suggest allocating more aid resources to heterogeneous societies. Cross-country evidence shows that at present the bias is in the opposite direction, with homogeneous countries, at any given income per capita level, getting more aid than homogeneous—this arises, probably from a small country bias in aid distribution.

Frequently, in countries with severe HIs, these are entrenched in the political system, and then aid donors' influence is likely to be rather marginal. In such situations, local political change is the real requirement for the correction of horizontal inequalities. All aid donors can do is to put the topic on the agenda, as part of the norms of 'good policy', as well as making a (normally marginal) contribution via their own projects.

Most of the paper was devoted to exploring how aid might affect social and economic horizontal inequalities. But in the field of political HIs too, an HI approach would affect donor dialogue on questions of governance and political systems in ways that differ quite sharply with the usual dialogue in this area.

Two recent approaches to aid policy—a human rights approach and a social exclusion one—would be consistent with the approach suggested here. Although to date, neither of these approaches has been interpreted with the precision that is suggested by one focussed on horizontal inequalities.

Although the paper has been concerned to analyse how taking HIs seriously would affect aid allocation and conditionality, this does not, of course, mean that all other principles of aid become irrelevant. The objectives of poverty reduction and economic development generally should remain fundamental aspects of aid policy.

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