Executive Summary

Introduction: Making Aid Work for the Poor

Development Cooperation Can and Does Benefit the Poor

Development agencies are undoubtedly more determined than ever before to ensure that development cooperation benefits the poor. The fact that all have signed up to the International Development Goals is the clearest sign of this commitment.

In order to deliver on this enhanced commitment, agencies embrace a range of aims, some aimed at delivering swift, practical benefits and others with a more strategic orientation. There is strong evidence from a recent survey of European donors that development agencies are increasingly seeking to involve partner governments and the poor themselves in translating these aims into real benefits. Participatory approaches and gender analysis are more widespread.

A range of dimensions of poverty is being tackled by means of support for basic services, pro-poor credit schemes, agricultural extension services and the empowerment of local communities. Yet, there is a very **real opportunity** for agencies to work more closely with developing country partners to ensure that far more of their interventions **systematically benefit the poor**.

Reaching the poor more effectively: Development agencies could, for example, do more to promote policy consistency between their policies on agriculture, trade and investment and their poverty reduction goal. Equally, impact could be increased through efforts to clarify what is meant by creating a 'pro-poor' enabling environment and how donors and partners can operationalise it.

The Role of the DAC Informal Network on Poverty Reduction

Development agencies have recognised this opportunity to strengthen policy and practice on poverty reduction. The DAC Network is building upon the findings of the Scoping Study to draw up DAC Guidelines on Poverty Reduction, due to be completed at the end of 2000. The Guidelines, prepared following country level consultations, are intended to assist agencies in enhancing the effectiveness of their cooperation programmes.

1. Donors' Poverty Reduction Goals, Conceptions, Approaches and Roles

Chapter 1 considers whether development agencies seek to place poverty reduction at the heart of their approach. It assesses whether donor commitment to poverty reduction is matched by a coherent conceptualisation of poverty and set of strategies for its reduction. Finally, it examines whether development agencies pursue a pro-poor influencing agenda that goes beyond their bilateral programmes.

1.1 Donor Goals, Aims, Objectives and Commitment to Poverty Reduction

The vast majority of development agencies set out their **formal commitment** to poverty reduction by identifying it as their overarching goal or as one of their two or three overarching goals (see Table 1). By clarifying the priority attached to poverty reduction objectives relative to others, this kind of explicit commitment can help strengthen incentives to prioritise, and assist the mainstreaming of, poverty reduction. Nonetheless, in some senses all agencies can be seen as having an implicit commitment to poverty reduction, as all have subscribed to the International Development Targets.

In addition to identifying poverty reduction as an overarching goal, a minority of agencies go on to articulate the **potential linkages** between their operational objectives and benefits for poor people. This process should lead naturally to a consideration of how these linkages can be strengthened, and whether complementary actions are required to ensure that the poor share in the benefits of an intervention. There are, nonetheless, considerable similarities in the objectives of donors, irrespective of whether they have poverty as a formal goal and articulate poverty linkages. All donors support interventions that aim directly and predominantly at focusing on the needs of the poor, actions which benefit the poor indirectly, and structural measures underpinning growth which create an enabling environment for poverty reduction. However, developing country stakeholders, academics and practitioners often contest the legitimacy of attempts to equate relatively broad objectives with concrete benefits to poor people.

Table 1
Formal Commitment to Poverty Reduction (PR)

PR is Sole Overarching Goal	*PR is one of two (or three/four) Overarching Goals*	*PR is not an Overarching Goal*
Australia, Canada, Denmark, Ireland, Luxembourg, Netherlands, Norway, Spain, Sweden, UK, UNDP, World Bank	Austria, Belgium, EC, Finland, Germany, Italy, Japan, New Zealand Switzerland	France, IMF, Portugal, USA

1.2 Conceptual Framework for Poverty

The way in which agencies conceptualise poverty can assist them in developing poverty reduction strategies and ensuring their successful implementation. This conceptual framework involves defining the nature of poverty, its causes and how the poor can best be identified and targeted for assistance. All agencies now embrace a multi-dimensional definition of poverty, though the weight they attach to different dimensions varies. In contrast to the early 1990s, the majority of donors consider the right to individual dignity, autonomy and social inclusion to be important dimensions of poverty. Similarly, far more agencies than in the past demonstrate an awareness of the *dynamics of poverty*, that poverty is often not a permanent state and that people move in and out of poverty, often as a result of seasonal or random shocks.

However, there is some confusion within agencies concerning the **causes and effects** of poverty. In part, this is due to the complexity of the phenomenon but it also results from a lack of conceptual clarity. This might be redressed by a greater focus on the processes of poverty, whereby cause and effect are examined simultaneously. Very few agencies explicitly address the different levels at which causes of poverty may be found and the connections between those levels. Making such links may be important in order to clarify the agencies' underlying understanding of social processes and also to help anchor activities in concrete contexts. Finally, whilst many donor agencies can give a long list of very different and, on the face of it, equally important causes of poverty, there is little discussion amongst donors of their relative importance and the linkages between them.

The donor case studies highlight the fact that **identification and targeting of the poor** by donors is often broad-brush with a tendency to treat target populations as homogeneous socio-economic groupings. Thus, for example, a number of agencies associate the poor with the agricultural sector and, as a result, assume that working with agricultural smallholders is poverty-focused, without recognising that smallholders are often a highly heterogeneous group. A similar tendency often applies to gender and poverty issues. Some agencies equate the two, failing to recognise that not all the poor are women and not all women are poor.

Whilst a number of agencies identify vulnerability as a dimension of poverty, very few seem to explore this issue in any depth in relation to targeting for poverty reduction. However, agencies need to focus on both entries to and exits from poverty if they are to decrease the overall numbers of the poor. This requires a much **broader understanding of poverty processes** and an ability to identify not just the currently poor but those groups that may be vulnerable to becoming poor. Overall, to convey a real sense of the multi-dimensional and interlocking constraints which the poor experience and which poverty-reducing efforts have to confront, a more comprehensive social analysis is required which allows agencies to develop a greater understanding of poverty and gender dynamics and to better identify the poor and vulnerable.

Operationalising multi-dimensional approaches: although agencies have clearly improved and broadened their understanding of poverty in recent years, many are still grappling with translating this into effective actions on the ground. Agencies recognise the potential value of a multi-dimensional definition in directing attention to the wider issues of social exclusion, whereas narrower income/consumption definitions may result in the underlying socio-political causes of poverty being neglected. However, in practice multi-dimensional definitions sometimes generate little more than a taxonomy of characteristics of poverty, and their very breadth leads to difficulty in separating the poor from the non-poor at the operational level. Some agencies seek to resolve this by retaining a multi-dimensional understanding of the causes of poverty, but adopting a narrower definition for operational purposes. An example is Germany, which states:

> People are poor if they do not have the minimum monetary or non-monetary income necessary to meet their food requirements and satisfy other basic needs. [But…] The social, economic, cultural, political and ecological causes of poverty are inextricably interlinked.

Although not all agencies have an entirely rigorous multi-dimensional conceptualisation of poverty, the priority concern is how existing multi-dimensional approaches can be more effectively operationalised. A few agencies are already grappling with this, such as Sweden, which is currently developing operationally-relevant guidelines.

1.3 Agency Strategies for Poverty Reduction

The broadening of agencies' conceptualisations of poverty is reflected in their strategies for its solution. None has a single, underlying strategy, but rather agencies adopt a **'mix and match'** approach which aims to prioritise different strategies according to the country context. These usually combine a range of economic, social, political and safety-net aspects.

All agencies see **economic growth** as important for poverty reduction, but most attach the condition that growth should be 'pro-poor' or broad-based. However, there is much uncertainty as to what 'pro-poor' growth is and what its implications are for actual donor interventions. Given the centrality of growth strategies for poverty reduction, clarifying how 'pro-poor' growth can be operationalised would appear to be a priority. A further gap relates to the relationship between distribution and growth, which is glossed over by many agencies. Although some support the redistribution of human capital or of future income, few take a clear position on the role agencies might play in the redistribution of natural assets such as land.

Gender analysis of economic growth and processes of accumulation should be linked to agencies' poverty reduction strategies. Gender relations influence the growth process through their impact on macro aggregates, meso institutions and the actions of economic agents at the individual and household levels. Addressing gender problems can thus have a strategic and indirect effect on poverty but it is *not necessarily* identical to addressing poverty. Some agencies have made some progress in developing a gender-focused analysis for micro-level interventions, but at the meso and macro levels greater efforts need to be made to draw out gender-policy linkages and to address their implications for poverty reduction interventions.

Social sector investment, particularly investment in basic social services, features in all agencies' poverty reduction strategies. Several agencies see having a strong gender component to their social sector work as a key to the success of poverty reduction strategies. Attention to redistributive aspects needs to go beyond efforts to address gender inequalities, however, to include a broader analysis of socio-economic inequalities. Virtually all agencies identify social sector investment as both promoting development of human capital development (and as a result, productivity and economic growth) and having intrinsic value. Social sector investment strategies sometimes fall into the trap of assuming that the same approach will be universally suitable in countries where 'everyone' is poor. However, even in 'mass poverty' countries important socio-economic differences exist which may limit the extent to which the poorest benefit from a 'one size fits all' approach.

Political strategies have become far more influential over the course of the 1990s, as agencies have come to see increased participation of the poor as essential to ensure that policies are pro-poor. The origins of this political agenda in part reflect the adoption by development agencies of the empowerment and participation agenda developed by international NGOs in the 1980s. Yet few agencies are clear on whose participation is being sought and what kinds of participation are most likely to benefit the poor, whose views may otherwise easily be drowned out.

There is also a growing interest amongst donors in issues of *governance and human rights*. However, there has been a failure, until very recently, to think through the linkages between improved governance and poverty reduction and the links between governance at different levels of aggregation – macro, meso, micro. This creates clear limitations on the coherence and cost-effectiveness of agencies' poverty reduction efforts in this area. Agencies tend to assume that more democratic, pluralist politics and more accountable government will favour the poor. While they may be one condition for this, there is no systematic evidence that the voice of the very poor is necessarily greatly strengthened under more democratic conditions. Secondly, agencies need to identify more precisely what types of civic society and political institutional developments they can support and which are likely to give more voice to the poor – directly or indirectly – and which will make government more responsive to their needs. Paralleling the easy equation drawn between governance, democracy and power to the poor majority, is the assumption that *decentralisation strategies* will bring decision-making closer to the poor. Such linkages deserve far closer scrutiny if political strategies are to bring concrete benefits to the poor. Similarly, growing rhetoric on a *rights-based approach* to poverty reduction requires closer examination if it is to provide an effective framework for operations.

Safety-net strategies to reduce poverty are less prominent in agencies' approaches to poverty reduction. For some, safety nets are seen as a short-term measure particularly associated with mitigating the immediate adverse effects of structural adjustment, whereas others see them as part of the underlying fabric of society. Although traditional or indigenous social safety-net systems are often the most important safety-net systems for the poorest people, donors appear to have attempted little analysis of what they can do to strengthen or preserve existing structures and practices. Indeed, some donor practices may be worsening the poverty situation by undermining such systems. A few agencies, however, are developing ideas in this area, looking particularly at supporting and developing local institutions and social processes in order to reduce vulnerability. There appears to be a strong case for reassessing the role of safety-net approaches as part of a poverty reduction strategy, and identifying more clearly the role which external agencies can usefully play. A number of agencies strongly support strategies to promote *food security* as part of their overall approach to poverty reduction. Currently, opportunities are being missed to exploit the potential synergies between food security and poverty reduction strategies.

1.4 Agency Perception of their Roles in Poverty Reduction

Development agencies increasingly recognise that maximising their impact on poverty requires them to go beyond their traditional role of providers of bilateral project aid. This has led some to adopt various types of 'influencing agenda' designed to promote poverty reduction indirectly through their partnerships with multilateral agencies and in their own dialogue with developing country partners. More significant still is the weight given by many to promoting domestic and international policy coherence with the goal of poverty reduction.

The increase in the share of development cooperation channelled through **multilateral agencies** has been accompanied by an appreciation of their potential as powerful agents for promoting pro-poor change. Some agencies, such as the Finnish, Swiss and the UK, consider that one of the main purposes of their bilateral programmes is to strengthen their understanding of the poverty context and thus their dialogue on poverty with multilateral and developing country partners. However, the institutional separation of responsibility for bilateral and multilateral channels within DAC member governments or the divorce between policy and operational staff, has limited the ability of some agencies to pursue a pro-poor influencing agenda.

A further mechanism for increasing the impact of development cooperation involves channelling resources through **international or southern NGOs**. This is based on the belief that NGOs are better able to reach the poor because they have a better understanding of the local context of poverty. Although it is undoubtedly the case that NGOs have particular advantages over official donors and governments, their effectiveness as instruments to benefit the poor deserves closer scrutiny. There are strong arguments for channelling more resources through southern NGOs, subject to adequate monitoring, where the support in itself may be regarded as directly contributing to poverty reduction by promoting grass-roots empowerment and local ownership.

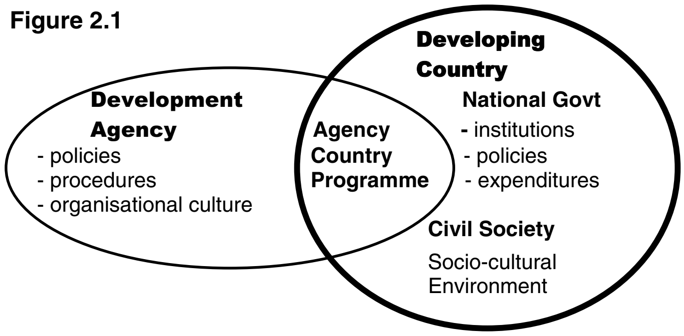
The DAC's *Shaping the 21st Century* document reflects renewed concern about the importance of ensuring the **coherence** of industrialised country policies with the goal of poverty reduction. This originates out of a growing understanding of how agricultural, trade, investment and other policies of OECD countries can limit the scope for developing countries to capitalise on the opportunities afforded by globalisation and increase the risks associated with increasing international economic integration. Yet despite some positive steps taken at the OECD level, only a small minority of agencies and their governments have taken concrete steps to ensure that their domestic policies and their positions on international policies are consistent with poverty reduction. This largely stems from the domestic political weakness of development cooperation agencies, which limits their scope to lobby other domestic ministries. Similar efforts to achieve policy coherence are also required at the developing country level, where inconsistencies threaten to undermine pro-poor developmental processes.

2. Mainstreaming Poverty Reduction

Ensuring that the poor benefit from development cooperation means that the growing commitment of agencies to poverty reduction revealed in Chapter 1 must be matched by effective, poverty-oriented management systems. If agencies are to maximise their impact on poverty reduction, then their poverty reduction objectives must be taken into account in all agency activities and at all organisational levels. In other words, poverty reduction goals and strategies must be mainstreamed throughout the agency if they are to translate into concrete benefits for poor people. Effective mainstreaming requires that development agencies take actions in three spheres (see Figure 2.1):

- agency policies, procedures and organisational culture
- agency country assistance strategies (CAS) and interventions
- country-level dialogue to effect changes in developing country institutions, policies and socio-cultural environments

Figure 2.1



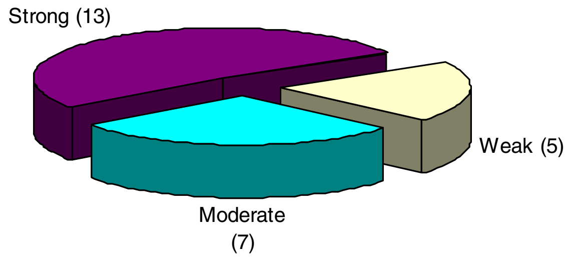
The extent to which agencies succeed in mainstreaming poverty within their country programmes and through dialogue at the country level is considered in Chapter 3. Chapter 2 assesses the record of development agencies in mainstreaming poverty reduction in their overall management system. Although there is no single 'right way' to mainstream poverty, the case studies reveal four factors which contribute to effective mainstreaming:

- do agency incentives reward poverty reduction?
- is the agency organised for poverty reduction?
- has the agency successfully mainstreamed gender dimensions?
- does the agency have poverty-oriented monitoring and evaluation systems?

Agency Incentives (Section 2.2): despite the prominence most agencies give to poverty reduction goals, their incentive systems are not particularly geared towards rewarding their staff's poverty reduction efforts.

The most positive finding relates to *senior management commitment*. Senior management have an important role in creating a 'culture conducive to poverty reduction by sending strong and consistent top-down messages underscoring the importance of poverty reduction. In just over half of all agencies, staff perceive senior management to be strongly committed to poverty reduction, and moderately committed in a further 25 per cent (see Figure 1). Senior management are generally perceived as giving stronger messages on poverty reduction in those agencies with an explicit poverty reduction goal.

Figure 1: Perceived Senior Management Commitment (number of Agencies)



While senior management are seen as supportive of poverty reduction goals in over three-quarters of all the case studies, there are in all agencies a range of **counter-incentives** to focusing on poverty. In particular, the premium placed by management on achieving a rapid *disbursement of aid funds* is often a disincentive to going the 'extra mile' on poverty reduction – particularly since poverty reduction measures may require a participatory phase and are often seen as complex and risky. A further counter-incentive is the *faddishness* with which agencies tend to adopt new objectives. When new objectives, such as rights-based approaches or children's needs, are 'bolted on' without clearly specifying their priority relative to existing objectives, the risk is that poverty reduction may be 'squeezed out'.

There are opportunities for agencies to turn otherwise **neutral incentives** into positive ones which actively support the mainstreaming of poverty reduction. One major example relates to the use of external *consultants*, on which many agencies rely extensively for the implementation of their programme. Currently, terms of reference for consultants rarely include a specific focus on poverty reduction. Similarly, if agencies supply poverty reduction training to consultants it would, at a minimum, emphasise the priority accorded by the agency to poverty reduction, and at best provide tools to operationalise it. In a number of agencies, where *diplomatic personnel* play a major role, the reward and appraisal systems, including with respect to promotion, are particularly unlikely to be closely related to success in reaching the poor. There is also scope for giving clearer signals to staff to promote an influencing agenda on poverty in their partnerships with *multilateral agencies*. Denmark, Norway, Sweden and, recently, the UK are partial exceptions, but it is clear that there are real opportunities for more agencies systematically to promote a greater focus on poverty reduction in their partnerships with multilaterals.

The evidence indicates that despite senior management commitment to poverty reduction, the *overall incentive structure within agencies is not specifically designed to encourage staff to make poverty reduction their overriding priority* in practice. The management culture of most agencies tends to be *'permissive'*, leaving considerable discretion to individual country directors and departmental heads as to how far they focus on poverty reduction.

Organisational structure (Section 2.3): while sending clear signals that prioritising poverty reduction is important, effective mainstreaming also demands that the organisational structure of the agency facilitates the efforts of staff to promote its achievement. Basic elements of good practice which can be divined from the case studies relate to:

- guidance
- skills
- multi-dimensional/cross-sectoral approaches
- training
- decentralisation

The lack of operationally-relevant guidance for poverty reduction is a major shortcoming of the great majority of development agencies, with far less available than for many other objectives, such as the environment. There are a few exceptions, such as Germany and the World Bank, whose experience in the provision of guidelines might be drawn upon by other agencies (see Table 1).

The absence of guidance contributes to the view apparent from some donor case studies, that while officials recognise the broad political consensus prioritising poverty reduction nevertheless:

> neither 'poverty' nor 'poverty reduction' are very operational concepts… poverty reduction still appears to be too unclear, too complex and too noble to be easily translated into tangible activities. (Finnish case study)

Table 1 Specific Guidance on Poverty Reduction

Operational Guidance	*General (awareness-raising) Guidance*	*None*
Denmark, Germany (BMZ),Sweden, UNDP, World Bank	Australia, Canada, EC DG VIII, Finland*, IMF, Ireland*, Japan, Netherlands, Switzerland*, UK*, USAID	Austria*, Belgium*, EC DG IB, France, Italy, Norway*, Portugal*, Spain

* Agencies planning to introduce operational guidance

Effective mainstreaming is also constrained by the *virtual absence of training* for agency staff on poverty reduction (see Table 2). Only eight agencies provide any training whatsoever, and even among these some staff who could benefit from training are not covered. There is a major opportunity for agencies to provide staff (and consultants) with practical skills and tools to tackle poverty in carrying out their particular work tasks.

The effectiveness of poverty units varies widely: within the European Commission it works rather better in DG VIII, which has a senior social development adviser backed by a directorate, than in DG IB, where a single junior official covers the Asia, Latin America and Mediterranean programmes. Germany has been successful in mainstreaming poverty through a combined gender and poverty unit, while the UK has a hybrid approach.

Table 2 Training in Poverty Reduction

Operationally Relevant	*General Orientation*	*None*
EC (DG VIII) Germany (BMZ) Sweden, UK, UNDP, World Bank	Japan* Switzerland	Australia, Belgium, Canada*, Denmark, EC (DG IB), France, Finland, IMF, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, USA

* Agencies planning to introduce operationally relevant training

Agencies could also increase their mainstreaming capacity by *reappraising their skills base* in the light of the increased weight they have given to poverty reduction in the 1990s. There is little evidence of a fundamental reappraisal to assess whether agencies have the right balance and level of skills in view of the continual evolution of approaches to poverty reduction. Agencies increasingly favour sector-wide approaches, yet few have much experience or the relevant skills, notably in institution-building and governance. Widespread weaknesses include a lack of economists with a background in micro-level analysis who might usefully interact with social development advisers and with macroeconomists to ensure a pro-poor bias to sectoral and budgetary support. Other weaknesses include a lack of macro-level social development expertise and experts in basic education and health. Eleven agencies suffer from a general lack of specialists, often because of a reliance on diplomats to implement policy at the country level. The European Commission, Ireland, Norway and the Netherlands, among others, suffer from general understaffing or high turnover of staff, or both. Surprisingly, the pool of skills available may also not remain consistent with older priorities. The USA, despite its strong commitment to agriculture and economic growth as routes to poverty reduction, has disproportionately cut specialists in these areas.

Greater efforts are also needed to ensure that management structures encourage experts to work together in a *cross-sectoral and multi-disciplinary* fashion. Many officials express concern that present agency structures and cultures create pressures for sector-driven and supply-led approaches, under which country programmes include sectoral interventions to satisfy internal interest groups rather than in response to a careful analysis of country-level poverty reduction priorities.

An additional organisational factor with implications for mainstreaming is the degree to which agency staff and decision-making are *decentralised* from agency headquarters to the developing country level. Although only six agencies can currently be considered highly decentralised, on balance officials considered that the advantages of decentralisation outweigh the disadvantages. Empowered country-level staff are seen as better placed to develop effective pro-poor partnerships and to build up the trust needed for successful sector-wide approaches.

Mainstreaming Gender (Section 2.4): gender mainstreaming, which predates attempts by agencies to mainstream poverty reduction, provides a source of expertise on mainstreaming strategies. It confirms the importance of moving beyond separate projects, or 'tacking on' components, for poor people, and instead taking poverty reduction into account in all agency activities and dialogue. It also emphasises that increasing participation by the poor is insufficient; the *terms* of their participation must also be made more equal. In addition, the experience of gender mainstreaming provides practical lessons with respect to agency organisational structures. The importance of a structure which combines focal units with the requirement to integrate poverty concerns into all departments and operations has already been highlighted. The need to strengthen links between mainstreaming actions at headquarters and in the field is a further lesson, since progress in mainstreaming at the field level does not always match success at headquarters.

Finally, gender mainstreaming and the effective use of gender analysis is likely to be *integral to successful poverty mainstreaming*. The donor case studies indicate that although institutional cultures are slow to change, agencies have made considerable progress in mainstreaming gender. The vast majority of agencies have organisational structures that, to some degree, are geared towards gender mainstreaming (see Table 3).

Table 3 Gender Training

Substantial	*Some*	*None*
Australia, Austria, EC (DG VIII & IB), New Zealand, Sweden, Switzerland, UNDP, World Bank	Belgium, Canada, Denmark, Finland, Germany, Ireland, Japan, Netherlands, Norway, Spain*, UK, USA	IMF, Italy, Portugal

* Agencies planning to expand gender training

Monitoring systems (Section 2.5): poverty reduction mainstreaming requires monitoring systems which provide *accountability* against poverty objectives and effective *lesson-learning and feedback*. A minority of agencies use *marker systems* to record agency intentions with respect to poverty reduction, although the DAC is already seeking to promote more widespread use of markers and greater harmonisation (see Table 4). Marker systems have tended to focus on interventions providing direct assistance to poor people, reducing the incentive to examine the poverty linkages of *all* interventions and mark them accordingly. Some agencies are making progress in recognising the value of actions which create an enabling environment for poverty reduction.

Table 4 Marker Systems for Poverty Reduction

Marker System Operating	*No Marker System*
Canada, Japan (OECF), Germany, Netherlands, Portugal, Sweden, Switzerland, UK, World Bank	Australia, Austria*, Belgium, Denmark, EC, Finland, France, IMF, Ireland*, Italy, Japan (JICA), Luxembourg, New Zealand, Norway, Spain, UNDP, USA.

* Agencies introducing or planning marker systems

The contribution of monitoring systems towards accountability and lesson-learning is currently seriously constrained by their widespread failure to provide evidence on how the *poor in particular* have benefited from outputs or impact. The lack of baseline surveys and rigorous evaluation methodologies has prevented disaggregation of benefits by socio-economic group. Initiatives are under way in the EC, the UK, UNDP, the World Bank and the DAC Working Party on Aid Evaluation, for instance, to improve methods for assessing impact on the poor, and the DAC Informal Network on Poverty Reduction may have a role in disseminating the findings. It will be important to ensure that more rigorous impact assessment is cost-effective, sustainable and involves developing country partners.

Holding country programme managers accountable for their performance against the poverty reduction objectives of their CAS would strengthen mainstreaming. Currently, this occurs only very rarely, and country level indicators are poorly specified and rarely collected. Furthermore, senior managers are not held accountable against them. There is also considerable scope for strengthening systems for monitoring the poverty reduction impact of *sector-wide approaches*, in order that their effectiveness as an instrument can be assessed in future. Both of these areas are likely to intersect with efforts by donors and their partners to assess country-level performance against the IDTs. Some agencies, such as Germany, are actively engaged in *building partner monitoring capacity*, but considerably more could be achieved.

Feedback and Learning: even where agencies have sophisticated monitoring and evaluation systems, dissemination of information and the incorporation of knowledge gained often appear to be weak. Although researchers and practitioners have repeatedly noted the failure of evaluation output to influence policy and design, renewed efforts are required if poverty reduction lessons are to be mainstreamed more effectively. A number of agencies, such as Canada, Denmark, Germany, and the USA, have relatively sophisticated systems for learning lessons and disseminating them, though these are not specifically focused on poverty reduction. Equally, informal systems of learning are also often highly significant instruments for the mainstreaming of poverty reduction lessons (e.g. Canada, Denmark and Switzerland).

Overall, the picture which emerges shows that many development agencies have indeed made serious efforts to improve the operationalisation of their poverty reduction goals in the 1990s. However, even among the best, there is significant room for improvement. Some agencies have made very little progress in translating their poverty rhetoric into effective poverty-oriented management systems. It is clear that the DAC Informal Network on Poverty Reduction could play a major role in assisting the efforts of all agencies in this area.

3. Poverty Reduction at the Country Level

In the final analysis, it is donor success in contributing to reducing poverty within a country that counts. Chapter 3 assesses whether donor operations at the country level are ‘geared up’ to establishing productive partnerships and effective programmes for poverty reduction. It considers whether donor country assistance strategies (CAS) are focused on poverty reduction, if donor partnerships and coordination are poverty-oriented, how agencies prioritise their activities, and what evidence there is to indicate what works in poverty reduction interventions.

3.1 Mainstreaming Poverty Reduction for Country Operations

For the vast majority of agencies, CAS are the main vehicle for translating poverty reduction goals into effective actions on the ground. However, the **content of CAS and the process by which they are prepared reveals serious shortcomings** in many cases.

Table 5 Is Poverty Reduction Required in CAS?

Yes	*Some*	*No*
Australia, EC (DG VIII), Germany, Ireland, Luxembourg, Netherlands, Sweden, UK, UNDP, World Bank	Canada, Denmark, Finland, Japan, Switzerland.	Austria, Belgium, EC (DG IB), France, IMF, Italy, New Zealand, Norway, Portugal, Spain, USA

The first is that, of 26 agencies,[1] only 10 unambiguously require country programme managers to focus on poverty reduction strategies in their CAS (see Table 5). Very often **inclusion of poverty strategies and objectives is left to the discretion of individual managers** (Section 3.1). This is reflected in *weaknesses or the absence of senior management systems for screening* the poverty **content** of CAS. Ten agencies do have some kind of screening mechanism, but often senior sector expertise is not involved sufficiently or early enough to ensure that a multi-disciplinary and cross-sectoral approach is taken. More widespread rigorous scrutiny of the genuine poverty content, whereby weak CAS are rejected, would help to create incentives for staff to prioritise poverty reduction.

Secondly, part of the value of CAS lies in the **process** by which they are developed as well as the content. Dialogue with developing country governments and civil society can contribute to bolstering pro-poor policy reform and a more open discussion of public expenditure priorities. The donor case studies reveal examples of **participation by partner governments** (e.g. DG VIII, Germany, IMF, Japan, Norway, Sweden, Switzerland, UK, UNDP, USA, World Bank), and commitment to increase this (Section 3.1.2). Nonetheless, efforts to involve partner governments substantially in the process of developing donor strategies remains patchy, and attempts to go wider and involve other stakeholders (e.g. trade unions, NGOs, private sector) have been very rare. Only Sweden, the World Bank and (since 1998) the UK have made reasonably systematic efforts (see Table 6) It is essential, however, that attempts by donors to increase government and civil society participation are managed on a collective basis to avoid overburdening partners. Where possible this should be centred on *national poverty reduction strategies* developed by partner governments in conjunction with civil society representatives. Some agencies have begun to support this, but more could be done.

Table 6 Participation in the CAS Process

Yes	*Some*	*No*
Participation by Government:		
Australia, EC DG VIII, IMF, Japan, Norway, Sweden, Switzerland, UK, UNDP, USA, World Bank	Austria, Canada, Finland, Ireland, Italy, Luxembourg, New Zealand, Portugal	Belgium, Denmark, Netherlands, Spain, Germany
Participation by Civil Society Partners:		
Sweden, UK, UNDP, World Bank	Austria, Canada, Finland, IMF, Ireland, Japan, New Zealand, Norway, Switzerland, USA	Denmark, Germany, Italy, Netherlands, Portugal, Spain

Thirdly, the effectiveness of poverty reduction strategies contained in donor CAS depends in part on the **quality of the poverty data and analysis** (Section 3.1.3). Far more CAS include references to poverty data than in the past, and only a minority of agencies make no systematic use of poverty assessment data. However, often the *use made of poverty data is superficial*, in part because poverty assessments have in the past been over-descriptive with insufficient attention to possible policy prescriptions. This partly reflects insufficient effort to articulate the linkages between the nature and extent of poverty and the strategies and interventions set out by the donor. Poverty data do not appear to be fundamentally shaping the approach of many CAS, and the extent to which the data are feeding into inter- and intra-

[1] DG VIII and DG IB of the European Commission are considered separately making a total of 26 agencies.

sectoral priority setting is unclear. Too often strategies continue to provide *ex-post rationalisations of existing practice, rather than fundamentally reappraising priorities* in the light of a systematic assessment of the needs of the poor and the causes of their poverty. Sometimes country programmes are informed by gender analysis, but this tends not to consider poverty-gender inequality linkages. A number of agencies are increasingly to build up partner capacity to undertake high quality poverty assessments rather than seeking to improve the quality of their own data and analysis.

Preparing a carefully crafted CAS, developed in a participatory fashion and based on good poverty analysis, is an important first step for agencies seeking to maximise their impact on poverty. However, it amounts to no more than window-dressing unless the **CAS results in a programme of dialogue and interventions that result in practical benefits** being delivered to poor people (Section 3.1.4). This point is highlighted by the World Bank's Africa Task Force which concludes that while many CAS appear poverty-focused, the Bank's activities on the ground are far less so. Evidence from a study of European agencies suggests that many agencies need to pay particular attention to ensuring that poverty strategies give rise to effective poverty reduction interventions.

Finally, CAS could become more effective instruments for mainstreaming poverty reduction at the country level if more attention were given to **monitoring how far the poverty reduction objectives set out in the CAS are in fact achieved**. No agency appears to have a comprehensive system for holding country programme managers accountable for performance against CAS poverty objectives. Although many agencies use logical frameworks as part of the CAS documents, performance indicators are often vague, there is no indication of who is responsible for collecting these indicators, nor is there a senior management committee to scrutinise them.

Overall, it is clear that there are a number of **positive trends** which suggest that CAS are becoming more effective instruments for translating poverty goals into real benefits for the poor. CAS tend to be more informed by dialogue with developing country partners than ever before and make more use of poverty data and analysis. However, there is a **huge gap between best-practice examples and average or bad practice**. Despite improvements in the content and process of CAS, actual portfolios of donor interventions lag behind in their poverty focus.

3.2 Partnership and Coordination at the Country Level

The development community increasingly stresses that solutions to poverty must be found through effective partnerships with developing country actors, characterised by a higher quality and more equal relationship and enhanced coordination. However, there is **no consensus on what partnership solutions imply**.

For some, partnership is centred on the development of a **closer and more reciprocal relationship with selected *governments*** – those which share a common commitment to poverty reduction (e.g. Denmark, Finland, the Netherlands, Norway, Sweden, the UK and possibly Ireland). This approach leads on to interest in more flexible, less 'hands-on' forms of financing such as budgetary support and sector-wide approaches, and to ensuring that the national government is 'placed in the driver's seat' with respect to aid coordination. A recent DAC review of development cooperation in Mali appears consistent with this interpretation of partnership, recommending the 'progressive adoption of a programme approach where activities are managed by Malian institutions' (OECD/UNDP, 1998).

An alternative approach to partnership, which is somewhat less recent but still strongly defended, seeks to avoid too narrow a focus on government by giving **significant weight to building partnerships in civil society**, and with private or voluntary organisations and community-level structures. This is favoured by many smaller donors, for whom a modest scale of operations is suitable. It is also supported by several large agencies – especially Germany and to some extent the USA – which have never embarked on using programme aid as a lever for influence through concerted dialogue. Partnership approaches which privilege relations with civil society have obvious appeal as a means of coping with the corruption and lack of accountability of some partner governments. The World Bank's *Assessing Aid* Report found that if the policy environment is not right and government does not work, then nothing works (World Bank, 1998a). This provides a strong case for paying at least some attention to relations with government and not adopting 'civil society' partnerships on an exclusive basis. A pragmatic approach to government-centred partnerships also recognises that governments are not monolithic, and it may be possible to seek out those parts of government where potential exists for pursuing pro-poor policy and practice.

Considerable differences of view exist in a second area – **is conditionality consistent with poverty-oriented partnerships?** Some agencies are now reluctant to use the language of conditionality, as a result of prolonged criticism that it has been heavy-handed and ineffective. Recent research suggests that neither criticism is fully justified, but does indicate that conditionality is not effective in promoting longer-term policy or institutional transformation. Faced with this mixed picture, some agencies attempt to use some form of political conditionality. Germany and Finland, for instance, favour criteria such as respect for human rights and popular participation in political decisions. There is *no consensus, however, that new partnerships should include specifically pro-poor conditionality*, and few appear to have adopted it in practice. The nearest examples are the requirement by the World Bank in its ESAF programmes that a minimum percentage of public expenditure should be allocated to social sector spending – an approach which has been followed by one or two bilateral donors. Interestingly, the *survey of partner country perspectives,* conducted as part of the Scoping Study, elicited quite favourable views on conditionality vis-à-vis good governance and democracy, gender and the environment, and aid accountability. There is much resentment, however, of conditionalities tying assistance to goods and services from donor countries.

A third source of thinking on partnership relates to the **relative merits of the project versus other modes** (sector-based and budgetary) of delivering development cooperation. The multiplication of projects, even when formally managed by government staff, has been found by some to be institutionally corrosive, diverting officials' effort from more central tasks and creating 'islands of excellence'. Some agencies conclude that as long as agencies channel funding outside of the partner government's budget process they will remain *'part of the problem rather than part of the solution'* (Foster and Merotto, 1997). Partnerships are seen as providing solutions by favouring large disbursements in support of poverty reduction through official budgets.

Although there is no consensus on what partnerships entail, agencies are increasingly adopting the view that the **purpose of building partnerships is poverty reduction**. This shift is clearly to be welcomed; there is an **urgent need to clarify the mechanisms** for achieving pro-poor partnership. Four important issues concern selectivity, ownership, coherence and agency skills.

The principle of **selectivity**, given a boost in the World Bank's *Assessing Aid* Report, involves agencies abandoning traditional conditionality and instead selecting governments with whom they share a commonality of purpose and which have an effective policy framework or a commitment to develop one. Selectivity is seen as affording some leverage over policies through the 'gentler and more effective' means of on-going dialogue about implementing shared principles. Nevertheless, the *appropriate criteria for determining selection need clarification*, since countries may share a commitment to poverty reduction but not meet other criteria (e.g. they may declare war on their neighbours). How do agencies recognise a pro-poor government when they see one? Given that governments are not homogeneous, even where the overall environment is not promising for poverty reduction, should agencies select not to work with individual ministries where prospects are reasonable?

Ownership: By definition, partnership involves donors agreeing to fund *government-led* expenditure plans, reflecting partner government vision and subject to national accountability. A key constraint is the shortage of governments or even sectoral ministries with both the commitment and the capacity to move into 'the driver's seat'. There are, however, obvious dangers that technical cooperation to build capacity will result in donor dominance by another route, undermining the ownership that it is designed to contribute to. Currently, where governments are unable or uninterested in projecting their own vision, the bilateral agencies and the World Bank show an unhealthy tendency to push ahead regardless, particularly in the area of sector programmes, partly as a result of disbursement pressures (Oxford Policy Management, 1997). A sound and simple principle would be: *donors should stop trying to get into the driver's seat, and other donors should get out of the car if another donor grabs the wheel.*

Finally, developing strong and effective pro-poor partnerships calls for a reappraisal of donor skills. The *partner country perspectives* study underlines the need for donors to look at their own skill deficiencies before focusing on their partners' needs. Respondents also favour decentralisation of donor decision-making to field offices as likely to improve the quality of dialogue (as well as help reduce administrative delays and complexities). Partnership approaches place a premium on sophisticated *stakeholder analysis skills and organisational development expertise*. Attention to this area is a priority if agencies are to be properly equipped to meet the challenges of partnership.

Effective approaches to poverty reduction at the country level require **strong mechanisms for coordination and dialogue** (Section 3.2.3). However, much of the coordination effort now centres on narrow technical issues, limiting duplication and the exchange of experience with *little specific focus on poverty reduction*. Also, much coordination remains *donor-driven* and can leave developing country governments disempowered. The *partner country perspectives study* draws attention to insufficient efforts to include civil society representatives in dialogue and coordination, as well as a lack of knowledge on poverty of government negotiators and the need for more donor support to build up government capacity.

Some efforts have been made to raise the profile of poverty reduction in coordination fora, through Round Table meetings for instance, and a recent evaluation in Zambia concluded that Consultative Group meetings gave substantially more attention to poverty in 1997 than they had in 1990 (Atkinson *et al*., 1999). UNDP and the World Bank have played a leading role in coordination. Although the extent of World Bank dialogue on pro-poor policies and approaches in sub-Saharan Africa is found to have been modest (World Bank, 1996), there now seems to be greatly increased momentum for pro-poor coordination and dialogue. UNDP began piloting the UN Development Assistance Framework (UNDAF) in an attempt to ensure strategic coordination within the UN system and with government. Important innovations have also been made by some bilaterals (e.g. Germany in India) in initiating a broad dialogue within national society on poverty reduction issues, and this is something that could be developed more in the future.

3.3 Prioritising Poverty Reduction in Agency Country Programmes

Having clear and effective mechanisms for prioritising poverty activities is an important factor in determining how far development agencies maximise their impact. It is necessary, therefore, to consider the criteria agencies adopt to choose between modes of intervention and approaches, such as targeting.

The case studies indicate that there are **no common criteria** to assess even the broad poverty orientation of donor country programmes. A few agencies do have *marker systems* that provide an entry point for assessing poverty focus, while for others the extent to which interventions are shown to have *linkages* with poverty reduction provides an alternative criterion.

CAS, however, reveal little explicit prioritisation of poverty reduction relative to other development and non-development (e.g. commercial) objectives. The portfolio of interventions is generally justified, usually implicitly, on the basis of past experience, perceived comparative advantage and dialogue (generally without a poverty focus) with partner governments. Few attempts are made to assess the poverty-reducing 'bang per buck', or impact per dollar spent, of different sectors. There are, nonetheless, individual examples of agencies providing clear, poverty-based justifications for their choice of interventions.

Development agencies have widely varying views on the value of seeking to **target poor people** specifically. The World Bank's policy is to target the poor directly in countries where poverty is concentrated and sufficient government administrative capacity exists, though the policy is not systematically applied in practice. Some donors, notably the Nordic countries, reject targeting on principle, as undermining the political acceptability and sustainability of interventions, or because they consider it to be unnecessary in very low-income countries where 'all population groups are poor'. Others have no clear policy but implement targeting on an *ad hoc* basis. Generally the impression is that *agencies make relatively limited, though varying, use of poverty targeting mechanisms*. Often interventions do not select the poorest regions, districts or villages, or the poorest groups, such as the landless.

When considering the merits of universal versus targeted approaches it is useful to *distinguish between basic service provision and interventions in the productive sectors* (e.g. agriculture, fisheries, manufacturing). *Targeting mechanisms appear to be particularly important in the productive sector*, where untargeted support can empower the better-off at the expense of the poor and actually exacerbate the concentration of assets in the hands of the non-poor (Cox *et al.,* 1999). In contrast, some argue that in the social sectors the long-term benefit of the poorest may be best served by providing good quality services on a population-wide basis. However, it remains essential to consider the need for *complementary measures* to ensure that constraints specific to the poor do not prevent them from sharing in the benefits from population-wide approaches. A good example is Germany's support for drinking water in Burkina Faso which coupled the objective of universal provision with a careful analysis of the particular constraints facing poor groups in accessing water, particularly poor women.

Agencies choose **modes of intervention** which are appropriate to the particular country context. In practice, it is clear that across all contexts the project mode remains the preferred instrument for pursuing poverty reduction objectives for small donors and most larger donors. Recognised weaknesses of the project approach lie in the donor's temptation to retain a 'hands-on' management style, the difficulty of relating satisfactorily to the wider institutional context and policy environment, and resulting problems of sustainability.

Recently, some donors have begun seeking a shift to sector investment programmes (SIPs) or sector-wide approaches (SWAps), which are intrinsically different. SIPs retain the identification of individual donors with the particular components of the programme which remain, in this sense, projects, with the World Bank often playing a strong brokering and coordinating role. The SWAp is intended to ensure that government plays a more active role in coordinating donors, formulating policy, and setting priorities. Funding is not 'earmarked' against components but placed in a 'common basket'. To date, there have been few examples of SWAps in poverty reduction, and experience and guidance on how to make them work are within infancy. Problems that need to be highlighted and thought about more seriously, are:

- the strain on national governments' capacities for developing the necessary vision and systems;
- the need for a disciplined and self-effacing approach on the donor side;
- the need for deliberate attention within the agreed framework to monitoring and engaging in dialogue about the performance of the sector in improving access and enhancing impacts for poor people.

These are all substantial issues on which not much systematic thinking has taken place so far. Although SWAps clearly have the potential to enhance ownership and effectiveness, they do not guarantee a poverty focus, and donor-government partnerships face a challenge in combining upstream policy and system-oriented interventions with action downstream which directly involves communities in the improvement of their own health and education status or well-being.

When selecting between different modes of intervention for poverty reduction, there has been a renewal of interest among some agencies, such as Germany, the UK, and World Bank, and continued interest by some others in **area-based interventions**. This return to more 'integrated' or multi-sectoral designs may be explained by the fundamental changes that have taken place in political and economic contexts in developing countries and worldwide since a line was drawn under the experience of Integrated Rural Development Projects (IDRPs) more than a decade ago. It is likely to be strengthened by the influence of thinking about the multi-dimensionality of poverty and 'livelihoods' approaches. It is part of a *response by agencies to the fact that 'the poor do not live in a sector'*. Despite the change in context, the relationship with local government needs attention if the new area projects are to avoid the enclave development that was one of the negative features associated with the old IRDPs.

Agency policies indicate **increased support for decentralisation measures** within developing countries, designed to bring decision-making and resource allocation processes closer to poor people. Practice is less widespread, but there are examples of successes in institutionalising more responsive, participatory planning in a local government framework. In many countries, giving these efforts national scope calls for legal and administrative reforms to decentralise resources and authority. However, experience with such reforms has been very mixed. A balance sheet urgently needs to be drawn up on the precise conditions under which decentralisation may be expected to assist poverty reduction.

Most agencies seek to prioritise **gender equality** within their country assistance programmes. While there are examples of success, overall the case studies strongly support the DAC's conclusion that agency policy commitments to gender equality tend to 'evaporate' at the stage of country strategy preparation and country programme implementation. Part of the difficulty lies in the weakness of gender expertise at the field level relative to headquarters and in the lack of sex-disaggregated data. Operationalising gender issues at the macro and meso level is seen as a particular problem widely shared among agencies. The linkages between gender equality and poverty reduction which are poorly articulated in headquarters' policies are little better defined at the country level.

3.4 What Works in Poverty Reduction ?

In assessing the lessons of experience of what does and does not work in poverty reduction, there are three topics that seem to be generally regarded by agencies as critical:

- choosing an appropriate level of targeting;
- encouraging participation at all stages of the intervention; and
- paying attention to key factors influencing sustainability.

There are varying views on the pros and cons of **targeting** the poor, but also a general recognition that this area deserves greater consideration. Some evidence points to directly targeted interventions as having greater impact on the poor, though this may partly reflect insufficient efforts to assess the benefit incidence of indirect approaches. Emerging lessons include the importance of *joint* commitment partner by governments and donors to targeted approaches, the need to reducing the human, financial and time costs of participation, and the contribution of self-selection mechanisms to financial sustainability and reduce distortions.

Participation, referring to systematic stakeholder involvement, is still *more widely preached than practised*. It now has a recognised, even required, place in project design. Benefits are clear and demonstrable, but most particularly in the framework of process projects where stakeholders are in a position to influence the shape of the intervention and project managers have an interest in making it a more than nominal dimension of the operation. *Gender relations* figure centrally in a small but probably growing proportion of direct anti-poverty interventions. On the other hand, participation is not a panacea, it has significant opportunity costs for poor people, and the poor themselves do not have all the knowledge needed to devise solutions to their poverty.

The broad perspective on **sustainability** that agencies seem to share is that it can be improved on the basis of a longer-term commitment to the relevant national, regional or local partner. This may be supplemented with a number of useful insights from the World Bank about factors that encourage commitment from primary stakeholders and lead them to defend collective investments; e.g. including land title regularisation builds the commitment needed for sustainability. Innovative financial measures for cost-recovery have been used successfully in urban poverty schemes and deserve careful consideration. In the poorest countries, however, it may be necessary to distinguish between institutional and financial sustainability. Agencies and partners *should not expect to achieve financially sustainable delivery of social services in very poor countries,* but should aim for *institutional* sustainability. Greater realism in this regard would promote a longer-term perspective for agencies and partners and serve to enhance the design, overall sustainability and impact of poverty reduction interventions.