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Promises to the Poor: the Record of European Development Agencies*

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This series of Poverty Briefings aims to provide up-to-date insights on the issue of poverty, including the state of current understanding or opinion. Each paper covers new as well as old thinking on the issue, areas of debate, new approaches which are being tried, the options available, and the recent findings of research and experience.

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The picture in brief

All the European development cooperation agencies subscribe to the international goal of reducing poverty by one half by 2015 but they have different strategies for achieving it. Most do now share a consensus that:

- the poor lack empowerment as well as income and basic needs;
- economic growth does not necessarily result in swift poverty reduction, and a specific pro-poor strategy is required;
- a pro-poor strategy is only likely to be effective if the partner government is committed to it, and externally imposed conditions are rarely effective in generating such commitment.

European agencies' efforts to focus on the poor have centred mainly on ad hoc projects, which account for the bulk of spending. On average, about a quarter of European bilateral project spending had clear linkages with poverty reduction. A sample of 90 interventions showed that over two-thirds created positive benefits for poor people. Those targeted directly at the poor had the most impact, but tended to benefit fewer people than less targeted projects. Very few projects were financially sustainable without donor support.

European agencies were weakest in their efforts to understand the country poverty situation. Few had a dialogue on poverty reduction with their developing country partners. Equally, few developing country governments have developed a pro-poor strategy of their own which donors can `buy into'. Dialogue at the macro level has largely been left to the World Bank though European agencies have sometimes been involved at sector level. Despite this, donor support to basic education and health services (usually more accessible to the poor) has been modest, and there has been little shift in public spending toward the primary public services.

Some Challenges for Development Agencies

- The new emphasis on `partnership' requires genuine commitment to the poor on the part of developing country governments. This is often lacking, ultimately leaving donors with the difficult choice of whether to reduce government-to- government aid.
- Ad hoc projects would be of more benefit to the poor if the poor were involved from the start in identification and design as well as implementation.
- Donors increasingly recognise the limits of projects, and are seeking to enhance impact by supporting sector-wide approaches, especially in the social sectors. This involves more budgetary funding, improved coordination among the funders, ideally led by national governments, and increased trust between partners.
- Clearer guidance and increased incentives for programme managers are required if poverty is to be `mainstreamed' in donor agencies. Country programming could focus more on delivering benefits to the poor *and* actual results should be monitored. Most agencies need a broader range of poverty- relevant skills and to relocate them in field offices, with the authority and flexibility to build up pro-poor partnerships through dialogue.

I. European Goals and Strategies

All the European agencies have adopted the international development goal enshrined in the OECD/DAC document, *Shaping the 21st Century* of halving the proportion of the poor by 2015. They do not, however, share a common strategy on its achievement. Denmark, Finland, the Netherlands, Sweden and the UK have poverty reduction as their overarching goal, while for the European Community, Germany and (more ambiguously) Italy it is one priority among others. France and Spain do not have an explicit strategy for poverty reduction. French agencies do not consider that there are identifiable groups of poor for whom a special strategy is required. The European Community programme has a number of Resolutions related to poverty, but is only slowly developing operational strategies.

Those agencies with an overarching poverty reduction goal have the most comprehensive formal commitment. There is a risk, however, that every activity will then be presented as poverty-reducing, without real justification. Those agencies for which poverty is one priority among others rarely reveal the weight given to the poverty reduction aim relative to others. This makes it harder to judge whether their performance is adequate.

Agencies define the poor differently and in quite general terms - sometimes absolute (e.g. Germany) and sometimes relative (e.g. the European Commission). Many give priority to marginalised (usually ethnic) groups, and to women or female-headed households. Denmark and the Netherlands focus on smallholders and small enterprises (which are not necessarily poor) and on the landless, especially in Asia. The EC and Finland also give importance to the disabled. Italy has tended to focus on those groups which need help arising from `special situations' (eg. conflict and emergencies).

II.The 1990s record on poverty reduction

There are some positive signs in the 1990s, as well as evidence of serious shortcomings.

First, most agencies undoubtedly reveal increased commitment to poverty reduction. Both the Netherlands and Germany have well articulated strategies;

Sweden and Denmark have undertaken major reviews of their long-standing strategies to make them more operational. DFID (UK) has adopted a new comprehensive and stronger position. Finland and Italy have also improved their positions and the European Community is slowly articulating its own position and operational guidelines.

Box 1: Partnership for Poverty Reduction
A new concept of partnership is currently being proposed by a number of agencies. The basic idea is a form of contract between equals - the agency and its partner - who share the same commitment to poverty reduction, each with obligations to the other. In the DFID and Sida formulations, the poor country partner will be expected to commit itself to the international targets set for 2015, the pursuit of appropriate policies and good governance and the observance of civil political and social rights. The agencies in turn expect to make a long-term commitment of resources and towards greater flexibility in their use. Conditionality is not an element.

This is a promising new approach. However, it is still in an embryonic stage. Important questions remain about the rules of the partnership, the timescales and stringencies of the precise commitments and whether the partnerships will be bilateral or collective in scope. Even more vital is what will happen if partner governments lack commitment.

Second, virtually all the European agencies now recognise that poverty is broader than a lack of income or consumption. Other dimensions emphasised most explicitly by Denmark, the EC, Finland, the Netherlands, Sweden and the UK, include physical isolation, vulnerability, livelihood insecurity, social exclusion and powerlessness, and discrimination against women, low-caste groups and ethnic groups.

Third, there is a considerable consensus on the economic and social aims which underpin poverty reduction. Economic growth, while vital, is not seen as automatically offering adequate trickledown benefits, and certainly not quickly enough. Most agencies subscribe to `broad-based' growth, designed to provide better opportunities for the poor through greater employment options and by improving their access to credit, knowledge, and improved infrastructure. Investing in the human capital of the poor is an intrinsic part of such a strategy requiring increased provision and higher quality basic social services, particularly primary education and health, and drinking water and sanitation.

Many agencies now recognise that sustainable poverty reduction depends not just on investments but on the empowerment of the poor. Hence, they emphasise political reform and better governance to ensure greater responsiveness to the needs of the poor on the part of the political and administrative system, by countering gender discrimination and increasing participation in decision-making. All agencies have promoted the decentralisation of power and resources from central government to regional and local institutions, though it is not clear how this will ensure greater participation by, or responsiveness to, the poor in the face of local elites.

Fourth, most European agencies now consider that commitment by the domestic authorities to a pro-poor strategy is essential. They have concluded that this cannot be achieved artificially through conditionality. Instead, partnership is being pursued with a new vigour, particularly by DFID, the EC, Finnida, and Sida, based on mutual obligations and a joint commitment to poverty reduction goals (see Box 1). Some agencies are trying to build up management capacity within central and local government to achieve more equal partnerships and improve the planning and implementation of pro-poor measures. More could certainly be done. Since the early 1990s several agencies have sought local `ownership' of project and programme interventions through greater participation by local communities, including the poor, though the habit of `hands on' management by donors dies hard.

Fifth, although comprehensive data are not available, the importance of poverty-focused interventions in the portfolios of several European agencies has almost certainly increased in the 1990s. From the evidence available, on average about a quarter of their bilateral country spending is on projects with clear linkages to poverty reduction. However, this obscures considerable variation both between donors and in different countries. In India, half of the spending of four major European donors is clearly poverty-focused, while in Zambia it is about a quarter. In both cases the figures for individual donors vary significantly. There is thus scope for lagging donors to do more.

Very little is known about the impact of agency interventions on the poor since evaluations have either neglected distributional issues or focused on output rather than impact. A recent independent study of seven poor countries tried to assess donor effectiveness for a sample of 90 interventions (see Table 1). Impact is extremely difficult to judge, given the lack of baseline data but the study estimates that over 70% of projects had a positive impact, of which a third had a high impact.

Agencies were most effective at improving the access of the poor to resources, with over 90% of the sample having a positive impact. They are least able to improve the livelihoods and rights of the poor (Table 1: b). Only one fifth of the projects were highly targeted at poor groups, even though the sample covers projects identified by donors as poverty focused. 38% made negligible use targeting mechanisms. Though two thirds of projects were participatory, only 17% were highly participatory (Table 1: d). Two-thirds revealed moderate or high levels of gender sensitivity (Table 1: e). Only a fifth of projects were judged to be highly likely to be sustainable after donors withdraw. Finally, the evidence from this sample suggests that interventions targeted at the poor and involving their participation are systematically associated with greater impact on them.

III. Challenges Facing European agencies

Domestic political commitment to the poor

Development agencies recognise that without the commitment of the recipient government, explicit strategies and policies are unlikely to ensure that the poor share in the fruits of development. However, in many developing countries this commitment is lacking or patchy. In such cases the agencies can switch their support to non-governmental channels. Or, they can seek to apply pro-poor conditionality, but conditions imposed from outside are not found to have worked in other policy areas. Where donors have set conditions to protect or promote a reorientation of public expenditure towards basic social services, for example, fungibility has limited their leverage. A further option is for agencies to try to build up commitment through dialogue.

Pro-poor policy dialogue

In the seven country case studies European agencies had only limited dialogue with their partners on poverty issues and policies at the national/macro level. Nor did they work together collectively to seek a consensus on an appropriate `single strategy' with their partners.Their country strategies were prepared in a top-down fashion, with only limited participation by the partner governments, and even less by civil society. A deeper analysis of the poverty and political context is required to ensure effective cooperation with partner governments to develop and implement pro-poor strategies.

The work which has been done, mainly by the World Bank and UNDP, has often not been drawn upon by the European agencies. This has been left largely to the World Bank, IMF and UNDP. Yet, since the World Bank, by its own admission, has not been particularly effective in promoting poverty reduction in sub-Saharan Africa, the role of a European agency dialogue gains importance.

Nevetheless there have been some positive examples of dialogue. The Netherlands and the Nordic donors in Tanzania (with the UNDP and the World Bank), and a number of European donors in Nepal and Bolivia, have pursued national policy dialogue on social and poverty issues. Regular dialogue at the meso/sectoral level has been pursued by Germany in India, Denmark in Nepal, and Germany and the Netherlands in Burkina Faso. A number of donors, such as the UK in India, are trying to build pro-poor partnerships at the regional or state level. A great many more opportunities remain to be exploited.

Promoting the reorientation of domestic public expenditure within poor countries towards basic social services and improving their quality are major pro-poor options for the agencies. Yet there is little evidence of such a reorientation taking place in most poor countries perhaps because of a lack of donor-partner dialogue. Moreover, the agencies' own financial commitments to basic education and health have remained static at only 2-3% in the 1990s. While increased donor commitments may not necessarily increase the net share of domestic spending on these services because of fungibility (aid destined for one activity is actually spent on another), they could nevertheless help to build capacity for better policy formulation, administration, and implementation, and thus the quality of services used by the poor.

Benefiting the poor through projects/programmes
Although European project interventions have often been quite effective, there remains considerable scope to improve their benefits for the poor. Various routes include: improving project identification and design by involving the poor or their representatives at the outset; more systematic integration of gender equality aspects; less `hands-on' external management; and supporting more locally initiated and owned projects/programmes.

Interventions do not always need to be poverty-focused to benefit the poor. Projects or programmes which help to create an enabling climate for broad-based growth, strengthen governance systems or increase food security, are all likely to benefit the poor, along with the non-poor. However, to address the needs of the poor more specifically, they generally require mechanisms to ensure that the poor benefit substantially and swiftly. Yet, in practice, the share of donor spending that has direct linkages with poverty reduction is often quite low. In Zambia, for example, on average only 5% of interventions of seven major European donors could be classed as directly poverty-focused. In Nepal, the majority did not clearly identify poor groups as their intended beneficiaries and lacked targeting mechanisms that take account of caste, ethnicity, and gender.

Case studies revealed other opportunities for increasing benefits for the poor. In education and health programmes, the poorest geographical regions or districts/villages could more often have been selected. More attention could be given to `demand generation' as well as `supply-led' approaches. Rather than simply building schools or clinics, the focus could be on *why* the children of the poor may not be attending, and how to remedy this. Targeting mechanisms are particularly significant in the `productive' sectors, where those with assets like land and water tend to corner the benefits. Though some projects are increasingly taking an integrated approach to gender at every stage (e.g. the GTZ project in Burkina Faso), much remains pure lip service.

There is scope for greater support of locally initiated and locally owned projects and programmes. Agencies which sometimes reject such projects as of insufficient quality, might consider support for them with capacity building measures instead. Agencies could also support more innovative approaches to poverty reduction, taking the political and financial risk that local administrations cannot. There are examples of innovative approaches being scaled up and replicated more widely including the introduction of gender analysis at the Ministry of Agriculture in India. Such approaches have often been the exception rather than the rule, sometimes because the initial pilot design was never going to be appropriate for local financial and management conditions. In some poor countries, donors may need to admit that poverty-reducing interventions will not be financially sustainable for several decades. This points to more focus on the livelihoods of the poor and not just access to social services, as well as the need to enter into a long-term commitment with the partner government. The pre-eminent challenge of promoting institutional reform and sustainability remains.

Sector-wide approaches
Project interventions alone are unlikely to solve the problem of poverty reduction. Concern about the scale of impact of projects, their sustainability, and their skill and human-resource demands on donors, has led some agencies to look to sector-wide approaches. These can channel budgetary funds and institutional support through public sector organisations such as Ministries of Health. They are designed to create a supportive policy environment for the delivery of services to clients, including the poor. This approach has wider potential impact but it demands greater accountability between partners, a less `hands-on' management style from donors, improved coordination, and a willingness to work according to a locally owned strategy. A key challenge is to avoid becoming preoccupied with senior-level administration, and to be sensitive to and focused on the needs of poor areas and groups. There is currently no systematic evidence that sector approaches have impacted on the poor, and it will be important to monitor emerging experience carefully.

IV ` Mainstreaming' Poverty Reduction
Responsibility for poverty reduction clearly rests primarily with poor countries and their governments. However, external agencies could provide more effective support by mainstreaming the poverty reduction goal in all their activities and at all levels of their organisations. More attention could be paid to the following aspects of agencies' internal management systems.

- *Stronger and clearer guidance and incentives*
  Programme managers need to know that poverty reduction initiatives really matter to senior managers. Incentive systems for agency staff and consultants must encourage the long-term, participatory approaches often required for effective interventions.

- *Better monitoring of country programming*
  Country programming is being used more effectively, with vetting taking place at senior level (e.g. Danida, DFID, DGVIII, KfW and Sida). However, Country strategies still need to focus more sharply on the poor. More monitoring of actual performance against country strategy objectives is essential both as a management (incentive) tool and to improve public accountability.

- *Improved skills*
  Some agencies require a broader range of expertise, including more institutional and social development skills and more social sector expertise, such as health or education economists and planners. Some have increased their range of skills (e.g. Germany and the UK). The European Commission (DG VIII and DG IB) lacks such skills.

- *Greater decentralisation of expertise and authority*
  There is likely to be a net balance of advantage in decentralising personnel and decision-making responsibilities to field offices or embassies. This brings closer contact with the country poverty and political context, continuous dialogue, better coordination, and a more flexible response to partners. The UK has probably the most decentralised agency, but Denmark, the Netherlands and Sweden are moving in this direction. Some, such as GTZ and KfW, remain highly centralised, and greater decentralisation of authority is required for DG VIII and DG IB delegations.

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