Development, Poverty Reduction, and the Millennium Development Goals: Pitfalls in Strategic Planning and Management[1]

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ABSTRACT

This paper takes a critical look at the evolution of strategic approaches to poverty reduction in developing countries triggered by the International Development Targets formulated in 1996. These targets were initially seen as indicators of progress, for a strategic approach that was simultaneously a development strategy and a poverty reduction strategy. Donors then began to formulate and pursue poverty reduction strategies that represented a distinct departure from development strategies, in the name of achieving the international development targets. This paper presents arguments and evidence that this departure was not only unwarranted, but counter-productive. The emphasis on the targets and on poverty reduction has culminated in the Millennium Development Goals as the strategic focal point for foreign aid and development cooperation in the eyes of many aid donors. This has increasingly divorced poverty reduction from development, to the detriment of both.

INTRODUCTION AND SUMMARY

The latter 1990's witnessed a major resurgence in poverty reduction as a focal point for development cooperation and foreign aid, on a scale similar to and reminiscent of the 1970's emphasis on "basic human needs." This paper takes a critical look at the evolution of strategic thinking about development and poverty reduction, culminating in the emergence of the Millennium Development Goals (MDGs) as the strategic focal point for foreign aid and development cooperation in the eyes of many aid donors.

The next section of this paper looks at the evolution of the MDGs, which started out in 1996 as a set of "valuable indicators of progress" towards a goal of "a higher quality of life for *all* people." (italics mine). Almost all of the MDGs refer to various dimensions of poverty. At the time development and poverty reduction were seen by most as fairly closely linked. For instance, the "two-pronged" strategy advocated by the World Bank—promote broadly-based growth and invest in (poor) people through basic health and education so that they could take advantage of the economic opportunities afforded by growth—was presented as a poverty reduction strategy in 1990 and a development strategy in 1991. The international development targets (later MDGs) formulated in 1996 were seen mainly as a useful tool for communicating some of the worthy changes that foreign aid was supposed to help accomplish, in order to bolster support for foreign aid.

However, these targets prompted the OECD's Development Assistance Committee (the DAC)[2] and the World Bank to develop and advocate poverty reduction strategies that were meant to represent a significant departure from current development strategies, particularly through a more

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[1] Fourth Global Conference on Business and Economics; Oxford, June 2005. This paper summarizes and builds on two earlier discussion papers. (Crosswell 2001; Crosswell 2003). Thanks are due to Don Sillers and Norm Nicholson for helpful comments. The views expressed in all of these papers are mine, and should not be interpreted as official views of the United States Agency for International Development (USAID).

[2] The DAC is made up of donor country representatives. It is part of the Organization for Economic Cooperation and Development (OECD), based in Paris.

explicit and direct focus on the poor. This arguably represented a distinct shift from a strategic focus on raising living standards for all to a focus on raising living standards of the poor.

The more or less explicit justification for this shift was that a conventional development strategy would not by itself get the job done in terms of reducing poverty and achieving the MDGs. The next section of the paper critically examines this proposition from a number of perspectives, including the locus of the global poverty problem (global poverty is heavily concentrated in low-income countries, as opposed to middle-income countries); regional trends in poverty over time; links between development progress and poverty reduction in individual countries; and empirical evidence concerning the impacts of economic growth on poverty. This evidence does not support the proposition that a shift to a poverty reduction strategy is *necessary* to achieve the poverty reduction goals—a donor or recipient implementing a "good" development strategy could reasonably claim to be supporting achievement of the MDGs.[3]

The obvious rejoinder is the intuitively appealing proposition that a strategy aimed directly at poverty reduction is *bound to get better results* where poverty is concerned than a strategy aimed more generally at development. The next section of the paper confronts this proposition by examining the differences in emphasis and focus between the two strategies. It argues that the key differences have to do with the *income* dimension of poverty (rather than education and health, where there is a heavy emphasis on extending basic services to the poor in both strategies). More specifically, a poverty reduction strategy places more emphasis on targeted programs to raise incomes of the poor and improve income distribution; and less emphasis on overall economic growth as the engine of poverty reduction. (We explicitly reject a view of poverty reduction strategies as larger and more comprehensive development strategies, on grounds that both donor resources and recipient capacities are constrained, so that greater efforts in one area necessarily entail diminished efforts in another.) The evidence for this is not simply the recent articulation of poverty reduction strategies and descriptions of activities that "count" or do not count as poverty reducing, but also the experience of the 1970's. At that time donors were similarly seized with poverty reduction ("basic human needs") and shifted emphasis to targeted programs aimed at raising income of the poor because of the widespread conviction that income distribution systematically tended to become more uneven with economic growth. We then argue that a strategy focused more on targeted interventions to improve income distribution and less on overall growth was likely to be less (rather than more) effective in reducing poverty *in poor countries*, those where most of global poverty is concentrated. Such poverty reduction strategies tend to offer up advanced country solutions to what is mainly a poor country problem.

The discussion so far is at a very general and hypothetical level, about what is likely to work best. The next section reports the findings of a set of papers commissioned to test the proposition that a development strategy (as commonly understood) is more effective at reducing poverty than current versions of a poverty reduction strategy. The first paper re-examined the available data on growth, income distribution, and poverty reduction, confirming findings that the links between growth and poverty reduction tend to be strong, and that income distribution tends to remain fairly stable rather becoming more uneven with growth. Five other papers looked at the experiences of five low-income countries (Indonesia, India, Vietnam, Uganda, and Ghana) that had achieved significant reductions in income/consumption poverty over a meaningful time period, at a pace consistent with the goal of reducing the headcount incidence of poverty by half over a twenty-five year period. In each case, the key explanatory factors corresponded much more closely to what is considered a development strategy than to what is emphasized in a poverty reduction strategy.

The final section discusses the tendency to more directly focus on each of the MDGs, including estimates of the costs of achieving each MDG in each country that is falling short, and the injunction to direct development programs and efforts towards achieving each MDG in each country

[3] This finding was of interest because donors such as the US that continued to operate under the rubric of development were challenged for not adequately supporting the international development targets.

by the 2015 deadline, even if little or no progress was achieved during 1990–2004. We argue that this further divorces poverty reduction from development, and flies in the face of findings about the overall importance of governance, institutions, and growth (for which there are no MDGs) to development and poverty reduction. It also fits poorly with the literature on selectivity and aid effectiveness. We conclude with a brief reference to other important goals for foreign aid that are not adequately addressed by a focus on poverty reduction, including the problems of conflict, crisis, and reconstruction; humanitarian response, continued support for the transition from communism, support for key allies in the war on terrorism; and global and transnational issues pertaining to health, the environment, and trade.

FROM DEVELOPMENT TO POVERTY REDUCTION

The latter 1990's witnessed a major resurgence in poverty reduction as a focal point for development cooperation and foreign aid, on a scale similar to and reminiscent of the 1970's emphasis on basic human needs.

This resurgence was arguably launched by the International Development Targets formulated in a DAC report in May, 1996. (DAC 1996)[4] The point of departure for these targets (or "goals") was an earlier G7 Summit declaration that "a higher quality of life for all people is the goal of sustainable development." The DAC Report formulated a number of indicators and targets to "clarify the vision of a higher quality of life for all people, and [to] provide guideposts against which progress towards that vision can be measured." The report went on to explain the role of these goals and targets:

> The selection of an integrated set of goals, based on these agreed targets, could provide valuable indicators of progress. We are suggesting several such indicators in the fields of economic well-being, social development and environmental sustainability. The particular indicators we have chosen reflect our judgment of their importance in their own right and as meaningful proxies for broader development goals. Our selection does not indicate any diminished commitment to other goals accepted by the international community, at international conferences or elsewhere.

The first target pertained to "Economic well-being." It stated that "The proportion of people living in extreme poverty in developing countries should be reduced by at least one-half by 2015." The discussion indicated that this target pertained to income (or consumption) poverty, based on the "$1 per day" poverty line used by the World Bank. For the base year, 1990, roughly 1.3 billion people in the developing world were poor by this standard, amounting to 30% of the population of the developing world. So, the target aimed for a reduction to 15% (or less) over a twenty-five year period. The target should be pursued country by country, and substantial progress should be sought in all countries. The report declined to set a target for economic growth, on grounds that such a target "would be neither feasible nor useful in the formulation of country strategies." Other dimensions of poverty (education, including elimination of gender disparities; and health) were addressed by other targets. The only target that did not clearly relate to poverty and the poor (taking a multidimensional view of poverty) was the environmental target.

It is noteworthy that while the overall goal that launched the international development targets was "a higher quality of life for *all* people," the targets for gauging progress essentially pertain to poverty and the poor—a subset (30% by one measure) of developing country populations. Strictly speaking, these targets would more accurately correspond to a goal such as "achieve a minimally acceptable standard of living for all people"—quite a different goal.

There is no evidence that anyone noticed or expressed concern about this discrepancy, which at the time would have seemed like an excessively fine point. Certainly, the poor represent those most

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[4] Quoted passages are from pages 8–10.

in need of improvements in the quality of life—the group (*if one must choose*) for which improvements are the highest priority. Further, if pressed one could have reasonably argued that in practice improvements in the well-being of the poor in developing countries happen only with overall improvements.[5] Few would have envisioned the targets being achieved—much less pursued—without overall development progress and rising living standards for all. In that sense they were indeed "meaningful proxies for broader development goals." The report took care to emphasize that these were "Goals to Help Define the Vision" and "valuable indicators of progress." There was little or nothing in the report to suggest that these goals should become the main focal point for strategic planning and resource allocation by donors and recipients.

Upon reflection, however, the difference between a goal (and strategy) for an entire country and a goal (and strategy) focused on a subset of the population lies at the heart of the issues discussed in this paper. In particular, debates about the pros and cons of poverty reduction strategies versus development strategies typically revolve around the relative emphasis on interventions targeted on the poor versus broader interventions that are more general in scope. This is where poverty reduction starts to get separated from development.

USAID participated actively in the DAC Report and strongly supported the outcome. USAID had been operating under the rubric of "Sustainable Development" since 1993 and had developed a set of strategies, strategic guidelines, and a strategic framework that emphasized economic growth (including education); democracy and governance; population and health; environmental protection; and humanitarian relief. The international development targets were readily incorporated as "performance goals" in USAID's 1997 Strategic Plan, for which the overarching goal remained sustainable development (USAID 1997).[6] This was seen as a natural fit, with no issues of coherence or consistency.

At the same time, the targets and indicators contained in the international development goals were not seen by USAID to represent the full sum and substance of development cooperation—they were an important part of the story, but not the whole story. For instance, USAID's 1997 Strategic Plan included a number of other performance goals relating to economic well being, based on indicators such as economic growth, agricultural growth, economic freedom scores, and growth in trade and investment.

Following the formulation and acceptance of the international development goals a number of bilateral donors moved to adopt poverty reduction as the organizing framework and overarching goal for their foreign aid programs, and exhorted others to do the same. A 1999 DAC study of donor approaches to poverty highlighted the fact that the United States was one of only a few donors that did not have poverty reduction as an overarching goal. (DAC 1999) The same report claimed that "poverty reduction goals and strategies must be mainstreamed throughout the [donor] agency if they are to translate into concrete benefits for the poor."[7] This obviously raised substantial doubts about USAID's contribution to poverty reduction. More generally, it suggested that a strategy (such as USAID's) aimed at broad-based sustainable development (and the associated goal of "improvements in the quality of life for all") would not accomplish much in terms of poverty reduction.

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[5] Drop the word "only" and the proposition becomes much more controversial, indeed it is central to the debate about *development* versus *poverty reduction* as the more appropriate overarching goal for development cooperation.

[6] These "Performance Goals" were intended "to express the broad development changes to which USAID expects to contribute over the next decade in concern with its development partners. Performance goals are limited in number and do not necessarily cover all Agency objectives or program approaches." (p. 30) This was consistent with the "indicators of progress" thrust of the DAC Report.

[7] The quotation is from page 16 of the executive summary.

Since then the donor community has largely embraced poverty reduction as the overarching goal and organizing framework for development cooperation. Milestones include the adoption of the 1996 international development targets as Millennium Development Goals in 2000 at the UN, and the associated commitment to program against these goals; the *DAC Guidelines for Poverty Reduction issued in 2001;* the *World Development Report 2000/2001—Attacking Poverty*; and the introduction of "Poverty Reduction Strategy Papers" as the framework for programming multilateral and bilateral assistance at the country level. Even the International Monetary Fund climbed on board with the "Poverty Reduction and Growth Facility" (PRGF) as its main source of medium-term concessional finance for poor countries, replacing the Enhanced Structural Adjustment Facility.

In the meantime, the U.S. under both Democratic and Republican administrations has evidenced no inclination to adopt poverty reduction as an overarching goal and framework for development cooperation.[8] The U.S. has nonetheless embraced the International Development Goals of the Millennium Declaration and has participated actively and positively in the other milestones mentioned above, even as USAID has continued to operate under the broad rubric of sustainable development. The revision and update of the 1997 USAID Strategic Plan carried out in 2000 maintained the same structure of goals and objectives, despite the preponderant momentum of the donor community in favor of poverty reduction as the central, overarching concern. (USAID 2000). Most recently, the 2003 STATE/USAID Strategic Plan has "Advance Sustainable Development and Global Interests" as the strategic objective encompassing most if not all of USAID's programs. (USAID/State 2003)

The tension between the explicit focus of most of the donor community on poverty reduction and USAID's continued adherence to sustainable development generated a number of studies in USAID to identify and examine the underlying issues. In particular, could a donor such as USAID operate under the rubric of sustainable development and still legitimately claim to be making best efforts to support the Millennium Development Goals, which are predominantly focused on poverty reduction? Would USAID and other donors have a greater impact on poverty by adopting poverty reduction as the overarching goal for assistance programs instead of "development"? And, what about other important goals for foreign aid—besides development and poverty reduction as commonly understood—such as transition from Communism, transition from crisis and conflict, global issues, and humanitarian response? We consider these issues in turn.

IS A GOOD DEVELOPMENT STRATEGY A GOOD POVERTY REDUCTION STRATEGY?

An earlier paper addressed this issue in some detail, making the case that "to the extent USAID's strategies and strategic plan constitute a good development strategy, they represent a good poverty reduction strategy" (Crosswell, 2001).

The paper first documented the many references to poverty in USAID's strategies and strategic guidelines, and the clear intention and expectation that success in sustainable development meant *inter alia* success in poverty reduction. (USAID 1994) The close links between poverty reduction and development were also evident in the World Bank's *World Development Reports* of the early 1990's. The 1990 edition focused on "Poverty" and proposed a "two-pronged" strategic approach—generate rapid, labor-intensive growth; and invest in the poor in the form of basic education, basic health, family planning and nutrition so that the poor could take advantage of the economic opportunities afforded by growth. (World Bank 1990) One year later, the *1991 World Development Report* addressed "The Challenge of Development" and proposed essentially the same strategy—invest in people and promote growth through improvements in the business climate, openness to international trade and investment, and sound macroeconomic policies. (World Bank

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[8] This is in sharp contrast to the 1970's, when the U.S. under the Carter Administration led the charge to reorient development cooperation under the rubric of "Basic Human Needs." We return to this experience later in the paper.

1991) This same “two-pronged” approach persists in more recent Bank documents. (Stern 2001; World Bank 2002).

This suggests that development strategies as conceived in the 1990’s were certainly *intended and expected* to reduce poverty. Were such intentions and expectations justified and reasonable?

Consider the scope of the global poverty problem as defined in the target for reducing severe poverty by half and based on data available in the late 1990’s when this debate was taking place. (See Table 1) The data indicate that around 90% of the world’s 1.3 billion poor people lived in low-income countries (per capita incomes below about $750 in 1998) mainly in Asia and secondarily in Africa. In such countries poverty tends to be widespread (rather than concentrated in structural pockets); institutions tend to be relatively weak; and overall resources are scarce, as evidenced by low per capita incomes.[9]

Together these factors suggested that poverty could *only* be reduced by broad-based development progress along lines advocated by contemporary development strategies. In middle-income or advanced developing countries, poverty is less widespread and more a matter of distinct pockets; resources are more plentiful; and institutions are stronger. In such countries poverty might be reduced by targeted interventions without a basic transformation in the economy. This sort of poverty reduction strategy could reasonably be seen as one of focused measures to bring the poor—a distinct minority—into a relatively prosperous mainstream.

Table 1: The Geographic Distribution of Global Poverty
(Based on a poverty line of $1 per day per person)

Region	Number of Poor (millions)			Share of Regional Population (%)			Share of Global Poverty (w/o China)		
	1987	1993	1998	1987	1993	1998	1987	1993	1998
East Asia/Pacific	418	432	278	27	25	15			
(w/o China)	114	84	65	24	16	11	13	9	7
South Asia	475	505	522	45	42	40	54	53	53
Sub-Saharan Africa	217	273	290	47	50	46	25	29	29
Latin America/ Caribbean	64	71	78	15	16	11	7	7	8
Middle East/North Africa	9	5	6	4	2	2	0	1	1
Eastern Europe/ Central Asia	1	18	24	0	4	5	0	2	2
Total	1,173	1,304	1,200	28	24	24			
(w/o China)	880	956	986	29	28	26	100	100	100

Source: *Global Economic Prospects and the Developing Countries—2000*, World Bank, December 1999.

However, for the countries where most of global poverty is concentrated—those in South Asia, sub-Saharan Africa, and the poorer parts of East Asia such as Vietnam—there is little or no such prosperous mainstream to join. For most of the 1.3 billion people suffering from severe poverty—those

[9] The picture is largely the same today, except that China—with substantial numbers of poor by virtue of its large population—has become a middle income country, and in the process has reduced poverty sharply. South Asia continues to account for the largest share of global poverty. Africa -- where growth has been slow absolutely and relative to Asia – accounts for a significant and increasing share.

who subsist in low-income countries—t*he basic cause of their poverty is that they live in poor countries.* To the extent this is true, the basic solution is development progress that lifts poor *countries* out of poverty.

This much tends to establish that—in poor countries, those where most of global poverty is concentrated—development progress is *necessary* for poverty reduction. Most advocates of poverty reduction strategies would probably accept this proposition.[10]

However, the argument for shifting from a development strategy to a poverty reduction strategy is typically that development progress by itself won't get the job done—the impacts on poverty are weak, and the poor tend to get left behind. A development strategy by itself would not be *sufficient* for reducing poverty—particularly at a pace consistent with achieving the international development targets. By itself, a good development strategy would *not* be a good poverty reduction strategy—it would simply lay the groundwork for poverty reduction.

A number of arguments suggest that development progress does indeed bring significant reductions in poverty in poor countries.[11]

First, there is a close correspondence between the dimensions and characteristics of underdevelopment and those of poverty. Poor countries are characterized by low average incomes and low productivity, weak and unresponsive institutions, widespread food insecurity, low levels of health and education, vulnerability to crisis and conflict, inferior status of women, and other facets of underdevelopment. These all have their counterparts in various dimensions of poverty at the individual level. If development progress is defined in terms of major improvements in these areas (and it commonly is) then it is hard to imagine significant development progress in poor countries without significant poverty reduction.

Second, the pattern of poverty across regions evident in Table 1 suggests that poverty reduction for poor countries is essentially a matter of development progress. In South Asia and sub-Saharan Africa in 1998 over 40 per cent of the aggregate population was poor, compared with around 11 per cent for the more advanced developing regions of East Asia (without China) and Latin America.

Third, regional trends over time (Table 1) point to the role of development progress in reducing poverty. Leaving China aside, the largest declines in global poverty between 1987 and 1998 (not to mention earlier) were achieved in East Asia/Pacific—a group dominated by Indonesia, Thailand, Malaysia, and South Korea ("East Asian Miracles") as well as other countries (Vietnam, Philippines) that made significant development progress over that period. The incidence of poverty for East Asia fell from 24% in 1987 to 11% in 1998, thus exceeding the poverty target—a reduction by half in the share of the population in poverty over a twenty-five year period—in only eleven years. In contrast, in most of sub-Saharan Africa development progress during 1987–98 was very limited on average, and there was no meaningful decline in the incidence of poverty.

More generally, the data and analysis of country experience in reducing poverty in the 1990 *World Development Report* suggested that development progress with even modest rates of annual growth in per capita income—on the order of 1–2%—brought reductions in poverty at rates consistent with the DAC target, as well as significant declines in under-5 mortality. (World Bank, 1990)

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[10] However, the emerging work of the Millennium Development Project—discussed towards the end of this paper—argues that poor countries are caught in a "poverty trap," so that poverty reduction becomes a pre-condition for development progress.

[11] The same statement does not necessarily hold for middle-income countries, including many countries making the transition from Communism. For this reason, the finding that global poverty is overwhelmingly concentrated in low-income countries is an essential part of the argument that development progress is the key to poverty reduction.

The paper then examined the proposition that within countries, overall economic growth tends to leave the poor behind because of the alleged tendency for income distribution to worsen with growth in low-income countries (the Kuznets' hypothesis), tracing the evolution of thinking and evidence on this issue from the 1970's to the turn of the century. During the 1970's a number of seminal studies asserted that development progress had not resulted in poverty reduction, because of adverse trends in income distribution. (Chenery and Associates, 1974; Adelman and Morris, 1976; International Labour Office, 1976) However, empirical studies in the late 1970's and early 1980's began to cast doubt on the Kuznets hypothesis. Available data on trends in income distribution over time in specific countries revealed no systematic tendency for income distribution to worsen with growth. (Ahluwalia, Carter, and Chenery, 1979; Fields, 1979) Seen from the perspective of 1980, the proposition that overall growth in developing countries had failed to have much of an impact on poverty was true only in the sense that rapid growth in middle-income countries such as Korea and Thailand had failed to reduce poverty in poor countries (where growth had been very weak) such as Ethiopia and Bangladesh. (Crosswell, 1981). Data on growth, poverty and income distribution that began to accumulate during the first half of the 1990's further confirmed strong links between growth and poverty, and no systematic tendency for income distribution to undermine these links. The spate of studies that emerged in the latter 1990's based on the Deininger/Squire data base covering trends in income distribution in a large number of countries pretty clearly laid the Kuznets' hypothesis to rest. These studies suggested that income distribution tended to remain fairly stable within countries over time, with no systematic tendency to worsen with growth in poor countries. Therefore, the links between economic growth and poverty reduction tended to be strong. The "elasticity" of poverty with respect growth was high on average—around 2.6—which meant that a 10% increase in income would generate a 26% decline in the headcount incidence of poverty. The elasticity tended to be lower in countries with highly skewed income distribution, but was still high enough to enable achievement of the poverty target at modest rates of economic growth if sustained over the twenty-five year period for the target. According to various estimates, the international poverty target (a 50 per cent reduction in the share of the population in poverty over a twenty-five year period) could be achieved by even relatively modest rates of economic growth—around 1.5–2% annually on a per capita basis—provided income distribution remained stable. Based on the record, stability in income distribution would be a reasonable expectation in low-income developing countries. [12] (Deininger and Squire, 1996; Ravallion and Chen, 1997; Roemer and Gugerty, 1997; World Bank, 1998; Bruno, Ravallion, and Squire, 1998; Dollar and Kraay, 2000; and other sources cited in Crosswell, 2001)

On the basis of these arguments, analyses, and data we maintain that a good development strategy is at the very least a good poverty reduction strategy. A donor such as USAID could legitimately claim to be supporting the poverty reduction goals of the international community while operating under the rubric of sustainable development.

DEVELOPMENT STRATEGIES VERSUS POVERTY REDUCTION STRATEGIES: WHAT ARE THE KEY DIFFERENCES AND WHICH IS MORE EFFECTIVE IN REDUCING POVERTY?

For a while and in some quarters, the DAC targets and the renewed focus on poverty reduction were seen as mainly cosmetic, and motivated by efforts to shore up support for foreign aid. With the end of the Cold War the national security arguments for developmental foreign aid were much weaker. Economic and social progress in poor countries was no longer vital to staving off expansion of Communism. With globalization and increased interdependence there were still strong arguments for maintaining an emphasis on developmental foreign aid to promote progress at the country level. But, these arguments were an increasingly tough sell. Therefore, efforts to emphasize poverty reduction were to some extent seen as a repackaging effort to appeal to humanitarian interests.

[12] In formerly Communist countries income distribution systematically worsened for unique and understandable reasons having to do with the transition from Communist institutions and polices.

Given the strong positive impacts of development progress on poverty, re-labeling development as poverty reduction still conformed with "truth in advertising."

While the U.S. continued to resist recasting its development efforts as "poverty reduction," the U.S. bilateral aid program during the 1990's nonetheless made a substantial shift towards programs that directly corresponded to the DAC targets—and away from a focus on economic growth, and the policies and institutions that support growth—in an effort to bolster political support for foreign aid in an era of deficit reduction and limited interest in foreign affairs. This led to a bilateral aid program that increasingly emphasized programs in "sectors" that commanded political support such as health, education, and environment; and decreasingly emphasized a country-wide vision of development. (Crosswell, 2004a)

In any case, donors were not content to simply recast development strategies as poverty reduction strategies. Despite strong evidence that development progress generated significant reductions in poverty, the World Bank and the DAC argued that more effective strategies for poverty reduction were needed, and proceeded to develop such strategies. (World Bank, 2001; DAC, 2001)

Both efforts were contentious and controversial. If a poverty reduction strategy was to truly represent a departure from conventional development strategies, then it had to clearly point to changes in emphasis. Given tight budgets for donors and strained capacities for recipients, an increased emphasis in one area necessarily meant diminished efforts somewhere else. It would be unrealistic and disingenuous to simply add priorities to an already complex and challenging agenda. A poverty reduction strategy could not simply be "development plus." Much of the debate and controversy had to do with what one would do more of, and what one would do less of in a poverty reduction strategy compared with a development strategy.

The distinctions were surprisingly difficult to pin down. For instance, the term "pro-poor growth" was commonly invoked as a distinctive feature of poverty reduction strategies. However, the term remained somewhat vague, and most "definitions" were compatible with a sustainable development strategy. (For example, see the discussion on page 11 of the DAC Poverty Guidelines.) As an empirically measurable goal, there are at least three fairly obvious candidates for a definition (or criterion): growth that provides some benefits to the poor; growth with stable income distribution, implying proportional benefits for the poor; and growth with clearly improving income distribution, suggesting disproportionately large benefits for the poor. While the third would seem to be the natural choice for a poverty reduction strategy, discussions of pro-poor growth did not clearly point to that definition. (DAC, 1999)

As discussion proceeded and poverty reduction strategies were further articulated, it became apparent that the essential differences probably had mainly to do with income (as opposed to health, education, gender, or other dimensions of poverty), particularly the relative emphasis on interventions aimed mainly at affecting income distribution by targeting the poor compared with more general interventions aimed at overall growth.[13] Returning to the "two-pronged strategy" articulated by the World Bank in the early 1990's, there did not seem to be much difference in the "investing in people" part of either strategy. Rather, it was on the income and growth side—particularly the heightened focus on income distribution and diminished reliance on overall growth—that the key differences in approach seemed to be emerging.

This then raised a number of issues of feasibility and effectiveness. First, the empirical record on growth and income distribution indicated strong links between growth and poverty reduction. Therefore, less emphasis on overall growth would mean (other things equal) less poverty reduction.

[13] This hypothesis was based on the work emerging from the World Bank and the DAC on poverty reduction strategies; and also on discussions and debates surrounding basic human needs strategies during the 1970's.

The rejoinder would be that improvements in income distribution would make up for any sacrifice in overall growth. However, various considerations suggest that such improvements would be hard to achieve. First, the stylized facts based on the empirical record are that income distribution varies a great deal across countries, but tends to remain fairly stable over time within a given country. So, the empirical record is not especially encouraging about the scope for changes in income distribution. Related to this, based on development experience the development community has learned much more about how to achieve growth than about how to make an impact on income distribution. Second, even in developed countries targeting resources effectively on the poor is a major challenge for institutions. Such efforts would place large additional demands on the weak, overstretched institutions that characterize low-income countries. Third, the political economy of distribution—emphasizing programs that favor a politically weak group (the poor) compared with others—is arguably much more difficult than the politics of policies and programs that aim to achieve overall progress. On these grounds it could be argued that a development strategy was likely to be much more feasible and effective in reducing poverty than a poverty reduction strategy.

The arguments about feasibility and effectiveness of poverty reduction strategies (compared with development strategies) were necessarily tentative given ongoing uncertainty and vagueness about the distinctive features and emphases of a poverty reduction strategy. More generally, while debate about the relative merits of poverty reduction versus sustainable development as an organizing framework continued, the quality of discussion was handicapped by lack of clarity about what an agency (or recipient government) would do less of and more of under one rubric or the other.

To help clarify the issues USAID commissioned a paper that reviewed the prominent discussions of poverty reduction strategies and helped more firmly identify the common elements and distinctive features of a poverty reduction strategy relative to a sustainable development strategy such as that articulated by USAID. (Salinger and Stryker, 2001)

Among the *common* elements, *both* development strategies and poverty reduction strategies:

- consider poverty reduction to be essential;
- embrace the International Development Goals;
- should focus mainly on low-income countries, where the challenges are greatest;
- see poverty as multi-dimensional and not just a matter of income;
- place major emphasis on universal access to basic education and basic health care;
- emphasize reducing gender disparities;
- emphasize economic growth that provides better opportunities for the poor to be engaged in development; and
- place major emphasis on agricultural development.

The key differences between a "poverty reduction" strategy and a more conventional sustainable development strategy appear to be:

- A poverty reduction strategy sees the links between economic growth and [income] poverty reduction as relatively weak, because of the accompanying impacts of growth on income distribution.

- A poverty reduction strategy therefore places relatively more emphasis on *direct* measures to improve income and asset distribution ("indirect" measures such as universal primary education and basic health services are *not* at issue).

- More generally, a poverty reduction strategy places relatively more emphasis on targeted, direct interventions where impacts on the poor can be readily verified; and relatively less emphasis on indirect interventions that aim to address development and poverty reduction through broad systemic change.

- A poverty reduction strategy places relatively greater emphasis on *empowering* the poor (vis-à-vis others) and relatively less on broader, more systemic interventions aimed at improving democracy and governance.

- A poverty reduction strategy places relatively greater emphasis on safety nets and protection against fluctuations and shocks, and relatively less emphasis on reducing *vulnerability* by raising overall living standards.

- A poverty reduction strategy explicitly and avowedly focuses mainly if not exclusively on the poor. It starts with an analysis of who are the poor and why are they poor. At the proverbial end of the day, the criterion for success is the degree to which poverty has been reduced. This explicit, sharp focus on the poor is touted as a key distinguishing feature of a poverty reduction strategy.

- In contrast a development strategy focuses from the start on the country and the entire society (with major attention to the poor and with confidence that the poor will benefit from general progress). The initial question is "why is the *country* poor?" At the end of the day, the key questions have to do with whether there was general progress, and whether the poor shared in that progress.[14]

By and large these findings confirmed and enlarged upon the preliminary hypotheses discussed above, and provided the basis for a meaningful study of country experiences.

DEVELOPMENT AND POVERTY REDUCTION: LESSONS FROM COUNTRY EXPERIENCE

Perhaps the most striking aspect of the discussion of poverty reduction strategies versus more general development strategies in recent years is the almost complete lack of reference to the historical record, beyond statements that there has been a great deal of development progress, but there is still a great deal of poverty. The accounts of poverty reduction strategies that emerged from the DAC and the World Bank in 2001 were not derived from the overall experiences of poor countries that had successfully reduced poverty.[15]

This was in sharp contrast to the development/poverty reduction strategy that emerged from the 1990 World Development Report on "Poverty" (World Bank, 1990).That report looked carefully at the experiences of individual countries in reducing poverty—particularly the "Asian Miracles," but also a number of other countries—and on that basis identified the "two-pronged strategy" that emphasized broad-based (labor intensive) economic growth and investments in basic health and education so that the poor would be able to take advantage of expanding economic opportunity.

It is also remarkable that discussions of poverty reduction strategies after 1996 made absolutely no reference to experience and lessons learned from the 1970's, when donors were similarly seized with the problem of reducing poverty and meeting basic human needs, because of the alleged failure of growth to reduce poverty. One of the lessons learned from that experience was that strategies aimed at basic human needs tended to overemphasize direct impact interventions, at the expense of

[14] The analysis for formulating a poverty reduction strategy at the country level typically starts with the questions "Who are the poor and why are they poor?" This might lead to much the same interventions as a development strategy if the primary cause of poverty were identified as "underdevelopment" at the country level—the poor are poor primarily because they live in a poor country. However, such a statement would typically not be considered an acceptable analysis of the causes of poverty.

[15] For instance, Jim Fox points out that a quarter of one chapter in *World Development Report 2000/2001* is ostensibly devoted to "the evolution of poverty." However, much of that text deals not with changes over time but with the current situation. (Fox, 2003)

broader and more effective interventions aimed at the economy as a whole. (USAID 1980) It is hard to understand why there seemed to be little or no interest in revisiting and learning from that experience.

In any case, with progress in identifying the distinctive features and emphases of a poverty reduction strategy, and having raised a number of issues about feasibility and effectiveness USAID sponsored a study that focused on the historical record and country experience.[16] The first task was to review and update data and empirical analysis on the links between growth, income distribution, and poverty reduction. This was critical because the point of departure for poverty reduction strategies is the claim that simply focusing on broad-based growth (and development) would not be sufficient for reducing income poverty at a pace consistent with the MDGs. Ultimately this is essentially an empirical issue—how much impact has economic growth had on poverty?

The second part of the study was to look at the experiences of low-income countries that had achieved significant reductions in poverty, at a pace consistent with the goal of reducing poverty by half over twenty-five years. These included Uganda, Indonesia, Vietnam, India, and Ghana.[17] The country studies—relatively brief desk studies based on secondary sources rather than primary research—focused on two issues. First, what was the role of growth vis-à-vis changes in income distribution in explaining the reduction in poverty? Second, how was success achieved? In particular, did the most important policies and programs add up to what we would call a development strategy, or did they emphasize the distinctive features of a poverty reduction strategy?

Both the empirical study and the country studies confirmed strong links between growth and poverty reduction. Further, the "revealed strategy"—the most important factors (according to the literature on each country) explaining success in the five countries—more closely corresponded to a development strategy than a poverty reduction strategy.

The "Empirical Record" paper examined an up-to-date World Bank Household Survey Data Set for 50 low and lower-middle income countries with at least two observations on poverty since 1980. The data set includes a total of 101 intervals—time periods of at least two years between one survey and the next.

The analysis showed a strong statistical link between economic growth and poverty reduction. The results closely track those obtained elsewhere in the literature. A 10 per cent increase in per capita income/consumption as measured by household surveys can be expected to produce a 20 to 30 per cent decline in the proportion of people living in poverty. Key to this was the finding (also confirmed in other studies) that growth has no statistically discernible impact on income distribution. Combined with the finding that poverty measured by the $1 a day line tends to be "shallow," with many people clustered near the poverty line, even a modest rate of growth tends to reduce significantly the proportion of the population in poverty.

The five country papers asked about the relative contributions of growth and changes in income distribution to significant reductions in poverty, the main factors behind success, and how these relate to the distinctive features of poverty reduction strategies.

Uganda

The paper looked at Uganda's success in reducing poverty from 56% in 1992 to 44% in 1997/98 (and 35% more recently). According to the author the strategy implemented in Uganda was more of a general development and recovery strategy than a poverty reduction strategy. It focused on four elements: internal peace, food production (improvements in pricing and marketing arrangements

[16] The following discussion is based on Crosswell (2003) and references contained therein.

[17] The goal was to look at low-income countries that had made significant, documented progress in reducing poverty defined in terms of income and consumption over a meaningful time period. The more recent the progress the better.

in the food sub-sector), trade liberalization (including improved incentives for cash crops, especially coffee), and a stable currency. The pattern of growth generated by this strategy was broad-based, as income distribution improved slightly. The Gini coefficient declined from .364 in 1992 to .347 in 1997/8, while fluctuating between those figures during the intervening years. Accordingly, poverty reduction primarily reflected widespread increases in average incomes, and secondarily a slight improvement in income distribution from one end point to the other. Income growth accounted for 95 per cent of the decline in poverty, and improvements in income distribution accounted for only 3 per cent.

Indonesia

This paper analyzed the sharp reduction in poverty from 50.6% in 1970 to 15% in 1990 and 11.3% in 1996. (The paper also looked at the impact of the 1997 economic crisis in Indonesia. "After a spike in 1998—the magnitude of which is subject to widely different estimates—poverty returned to relatively low levels of the early 1990s.") The decline in poverty from 1970 through 1996 was attributed mainly to growth in average incomes, as income distribution remained fairly stable over this period. The Gini coefficient fluctuated in a fairly narrow range of .32 to .38, with no discernible trend. Most credit Indonesia's success to what would ordinarily be considered a broad-based development strategy—"conservative monetary and fiscal management, market-friendly sector policies—including an outward-oriented trade posture—and emphasis on human resource development through mass education and public health measures." In the words of one expert, "The basic story involves macroeconomic stability, successful management of natural resource booms, avoidance of the worst features of 'Dutch Disease', and a policy shift to manufactured exports after two decades of rural-oriented policies solved the country's food problem." While Indonesia emphasized food production and rural development more generally, the key policies in these areas were those characteristic of a development strategy rather than a poverty reduction strategy. There is little evidence that direct targeting on the poor played much of a role in this success, nor that Indonesia's policies were governed by an explicit focus on poverty reduction. While some programs involved directed credit, these programs were regarded as largely unsuccessful, encountering problems of mistargeting to larger farmers, poor repayment rates, and financial losses. Similarly, there was little in the way of political "empowerment" of the poor as emphasized in recent discussions of poverty reduction.

Vietnam

Vietnam reduced poverty from 75% in 1984 to 58.1% in 1992/3 and 37.4% in 1997/8. Household surveys at the beginning and end of the latter interval show a slight deterioration in income distribution, with the Gini coefficient increasing from .329 to .352 – understandable for a country moving away from Communism. Thus increases in average incomes were clearly the driving force in poverty reduction. Vietnam's success is attributed to a program that "was more of a broad development strategy than a specific poverty reduction strategy." It focused on three elements—agricultural development, macroeconomic reform, and trade and foreign exchange liberalization. In the agricultural sector the main reforms were dismantling of the agricultural collectives and abandoning administrative pricing. The macroeconomic reforms included fiscal and monetary reforms and a reduced role for state enterprises.

India

Poverty in India fell from 56% in 1973/74 to 26% in 1999–2000, about in line with the international target for poverty reduction. Income inequality remained relatively stable over most of this period, with the Gini coefficient fluctuating between .30 and .35 for most of the period; and then rising from about .32 to .38 during the mid-1990s. "The consensus is that India's faster growth in recent years is a major factor in explaining faster poverty reduction, and that slow economic growth before 1974 explained the poor performance in poverty in earlier years." Statistics on average caloric intake corroborate these trends. Faster growth in India has been linked to liberalization of the economy—reduction in government controls, trade liberalization, and increased receptivity to foreign investment. In contrast, policies and programs prior to 1974 that sought to address poverty directly—by promoting small scale agriculture and industry through regulation, or by limiting international trade to ensure adequate domestic production—were largely ineffective, inhibiting both growth and poverty reduction.

Ghana

Poverty in Ghana fell from 36.5% in 1991/92 to 26.8% in 1998/99, a reduction of 27 percent over seven years. The paper calculated that at that pace Ghana would achieve a 50% reduction in poverty in only 16 years, well ahead of the 2015 target date for the MDGs. During that interval the Gini Coefficient improved slightly, from .339 to .327. The share of the lowest 40 per cent of income recipients rose from 19.9% to 20.5%. The author cites various studies that attribute most of the decline in poverty during this period to economic growth, which averaged 1.9% on a per capita basis. Success in both growth and poverty reduction is attributed to fairly orthodox economic policy reforms, including liberalization in key sectors such as export crops and the private sector more broadly. Looking at the pattern of growth and the pattern of poverty reduction by sector, the most rapid progress in poverty reduction (and employment growth) was in the sectors directly affected by reforms. The aggregate decline in poverty reflected not only progress within sectors, but also movement of people from lagging sectors to leading sectors.

Looking at the papers side by side, several issues are noteworthy. First, both the empirical paper and the Ghana and India studies raise the serious issue of discrepancies between household survey measures of changes in personal consumption, and changes in consumption measured in the national accounts. Often these two measures of changes differ widely, complicating the issue of gauging the links between economic growth and poverty reduction. If there is a disconnect between growth and poverty reduction, it is more likely to reflect a divergence between national accounts and household surveys than adverse trends in income distribution. The sources and impacts of these discrepancies on estimates of poverty reduction has been a topic of considerable debate in the literature. (Bhalla, 2002; Sala-i-Martin, 2002)[18]

Second, for both Ghana and Uganda reductions in poverty in the food sector were relatively small, despite progress in production and productivity. Indeed, the movement of people out of the food sub-sector and into more profitable activities was a major source of poverty reduction (as it has been in many parts of Asia). This is not an argument for ignoring opportunities to increase productivity in food production. But, it is one of many arguments for taking an economy-wide perspective that recognizes mobility across sectors (and locations), rather than a more static view of poverty reduction focused on raising incomes of the poor in their current economic activity and situation.

Third income distribution was relatively good and tended to fluctuate within a narrow range in all five countries. Government efforts directed at raising incomes of the poor were perceived to have (at best) little positive impact in India, Ghana, and Indonesia.

MORE RECENT DEVELOPMENTS

The tension between poverty reduction and development as competing frameworks for development cooperation has continued and in some respects intensified in the past few years. Experience with Poverty Reduction Strategy Papers has revealed the relative neglect of overall economic growth, and the policies, institutional reforms, and investments that promote such growth; and an overemphasis (particularly by donors that review such papers) on public expenditures and direct efforts in the areas of health, education, and incomes of the poor. Reviews have also warned about the heavy demands these strategies pose for recipient institutional capacity.

More problematically, where the MDGs are concerned, the increasing tendency (e.g. in studies sponsored by the UN and World Bank) is to “cost out” each of the MDGs, and urge donors and recipients to program aid directly towards the separate targets and indicators in each country.

[18] Both argue that survey-based estimates of poverty reduction seriously underestimate progress.

(Devarajan, et al., 2002; Sachs, et al., 2005). This stands in stark and increasing contrast to a more integrated, country wide perspective that sees progress in poverty reduction as part and parcel of overall development progress. Donors are to account for aid expenditures in terms of how they directly support one or another Millennium Development Goal. In countries where there has been the least progress, donors and recipients are to redouble their efforts (and resources), essentially to try to achieve 25 years worth of progress in a decade.

This appears to fly in the face of the aid effectiveness literature that appeared in the late 1990's, that emphasized the importance of governance and institutions in determining development outcomes as well as the contribution of aid to development and growth. More generally, it increasingly separates poverty reduction from development. There are no MDGs for economic growth, and no MDGs for governance. The first element of the "two-pronged" strategy—broad-based economic growth—is increasingly neglected in the discussion of strategic focus and management.[19]

An emerging counter-argument and justification for a strategic focus on each MDG is that governance is not the key issue. Poor countries that are not making progress are caught in a "poverty trap," and a "big push" in the direction of the MDGs is required to lay the foundation for sustainable development progress. (Sachs, et al., 2005) This clearly separates efforts at poverty reduction from efforts at development (at least temporally) by now arguing that poverty reduction is a precondition for development progress.

This raises a number of issues that need to be explored further. First, the record on growth in Africa—admittedly almost uniformly dismal during the 1980's—has become increasingly mixed and positive since the early 1990's. In the first half of the 1990's (1990–96) only 8 out of 34 low-income African countries achieved average annual per capita growth at rates of 1.5% or better (about at the lower bound of growth rates judged by some studies to be consistent with achieving the MDG income poverty target over a 25 year period). For 1995–04 that number more than doubled (to 17) with 13 of these countries growing at 2% or better. (Crosswell, 2005) Over the longer term there has been near universal progress in social indicators, though some gains have been reversed due to the HIV/AIDS pandemic. This makes it difficult to accept the idea of a general "poverty trap" for poor countries. Second, looking at the historical record, it is hard to find examples of countries that have achieved progress along lines of the MDGs without overall growth and development. Third, even if such progress were technically feasible based on huge infusions of external resources and in spite of visible absorptive capacity constraints, it is difficult to see how such progress would be sustainable.

CONCLUDING COMMENTS

This paper has traced the evolution in strategic thinking, planning and management in the donor community since 1996, when what are now the Millennium Development Goals first appeared in a DAC report.

Initially, the targets were seen mainly as a useful device for illustrating and communicating some of the valuable results that development progress was supposed to deliver. This was arguably an effort to shore up waning support for foreign aid in the post Cold War era, as national security arguments for development progress at the country level had weakened. No particular changes in strategic goals and objectives were called for.

[19] A more systematic and comprehensive critique of how the MDGs are being approached is provided in the working paper by Clemens, Kenny, and Moss. They argue that "Many of the goals are simply unrealistic for many countries; costing studies are frequently misinterpreted and have contributed to an excessive focus on donor resources; and there is a real risk that the MDGs—as currently conceived and promoted—could turn development successes into failures." (Clemens, et al., 2004)

Then, around 1999–2001 donors began to emphasize and develop poverty reduction strategies as distinct from development strategies. To some this appeared as "déjà vu all over again," with striking but largely ignored parallels to the poverty and basic needs initiatives of the 1970's. More recently, the international development targets have ostensibly become the strategic focus for foreign aid, as least as far as many donors are concerned. Poverty reduction has shifted from being one (very positive) result of development to being the main focus and motivating factor for development cooperation. In the process, poverty reduction is becoming increasingly divorced from development.

We see a number of major problems.

First, this is likely to be counterproductive in terms of the MDGs themselves. For the low-income countries where global poverty is overwhelmingly concentrated, it is hard to conceive of significant, sustainable poverty reduction outside the overall context of development progress. Shifting the focus more directly towards poverty reduction and away from overall development is likely to lead to less progress in both. [20]

Second, this shift continues to ignore the historical record—both the experience of low-income countries that achieved major reductions in poverty; and the experience of the 1970's when donors also shifted to a strategic focus on poverty and income distribution with little in the way of positive results.

Third, since 9/11 there is a renewed appreciation of the compelling security arguments for overall development progress at the country level, seen not only as higher living standards for all, but also as a matter strengthened institutions and capacity and improved governance in developing countries. These arguments are embodied in the claim that weak states can pose as great a danger to national security as strong states. It is clear that this is not simply a U.S. issue—terrorism threatens wellbeing and security in countries all over the world. While it may have been politic to emphasize poverty reduction during the seemingly secure period between the fall of the Iron Curtain and the 9/11 terrorist attacks, there certainly is no need today to find an alternative to "development" as a justification for foreign aid. Indeed, in the U.S. development has been elevated to one of three cornerstones of national security, along with defense and diplomacy. (NSC, 2002)

Finally, even as poverty reduction does not do justice to the overall challenge of development, it does even less justice to the expanding and increasingly complex agenda for foreign aid. A direct focus on poverty reduction and the MDGs does not get at the heart of many of the problems—fragile and failing states, transition from Communism, global issues such as climate-change and biodiversity, humanitarian response, and peace-keeping and post conflict reconstruction—that foreign aid is called on to address. (Crosswell, 2004b; USAID 2004)

It bears emphasizing that the arguments here are not in favor of abandoning or forgetting about the MDGs. To the contrary, the claim is that the increasingly direct strategic focus on the MDGs has led the donor community astray, to the detriment of achieving the MDGs as well as promoting overall development. Donors would be well advised to return to a strategic focus on development as the best strategy for achieving the MDGs. With globalization and the threat of terrorism, the arguments for such a focus are stronger than ever. Further, donors need to more explicitly acknowledge and address other important tasks for foreign aid that stand somewhat apart from development (as conventionally understood) and poverty reduction.

[20] The analysis in Clemens, et al. (2005) provides more detail.

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