Chapter 10 Development Assistance

10.1 The 1990s saw poverty reduction reemerge as the central focus of international development cooperation. Beginning with the ninth replenishment of the International Development Association (IDA), donor countries have repeatedly stressed that poverty reduction should drive development assistance. In 1996, donors collectively set their goals for poverty reduction by 2015.[1] Almost all development agencies have a formal commitment to poverty reduction as their overarching goal or a top priority.[2] And donors are working to resolve their different approaches in the context of the Development Assistance Committee (DAC) of the OECD, which by the end of 2000 is to agree on its Guidelines for Poverty Reduction to assist donor agencies in making their programs more effective.[3] Development cooperation at the beginning of the 21st century will therefore be judged by its effectiveness in fighting poverty.

10.2 This Report outlines a broad policy agenda for reducing poverty. This chapter explores the role of international assistance in pursuing that agenda. Attacking poverty requires international effort because poor countries need financial resources to finance their poverty reduction efforts and because, as seen in Chapter 9, the impact of international forces on poverty can be severe. Therefore the efforts of rich countries—and the effectiveness of their efforts—will go a long way in determining whether poverty is drastically reduced in all regions and the DAC targets are met by 2015.[4]

10.3 In financial terms, those efforts decreased over the course of the 1990s. That is, as donor resolve on reducing poverty increased, donor resources decreased. This ran counter to what had been hoped for by the 1990 *World Development Report*, which envisioned a post-Cold War "peace dividend"—a "unique opportunity to cut military spending and increase international assistance."[5] In fact, after peaking in 1992, official development assistance dropped dramatically over the decade, in total (figure 10.1) and to almost all regions (figures 10.2 and 10.3).

10.4 The reasons for the decline are complex. At the beginning of the decline, donors cited their own fiscal deficits as a large part of the problem. However, fiscal deficits in DAC countries fell from an average of 4.3 percent in 1993 to 1.3 percent in 1997, and yet official development assistance still fell by 14 percent.[6] A more likely cause for the decline is that donors still view aid through a strategic lens rather than a poverty lens, and they see other uses of their money as more strategically useful. Studies have shown that aid flows have historically been determined more by political and strategic interests than by poverty reduction goals.[7]

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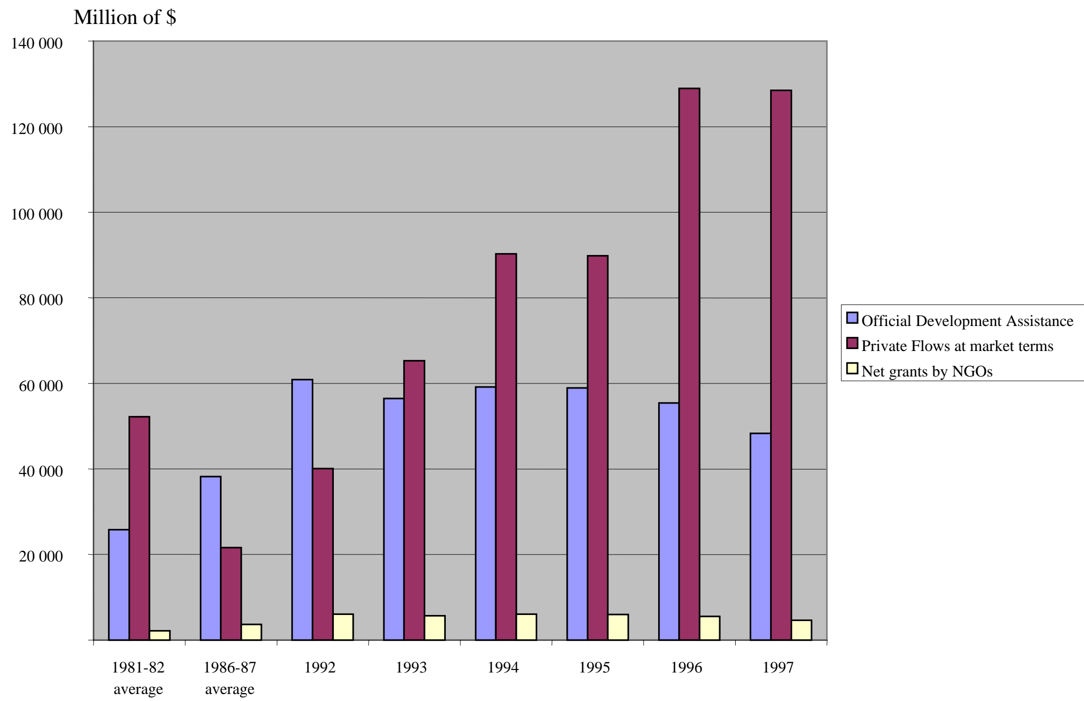
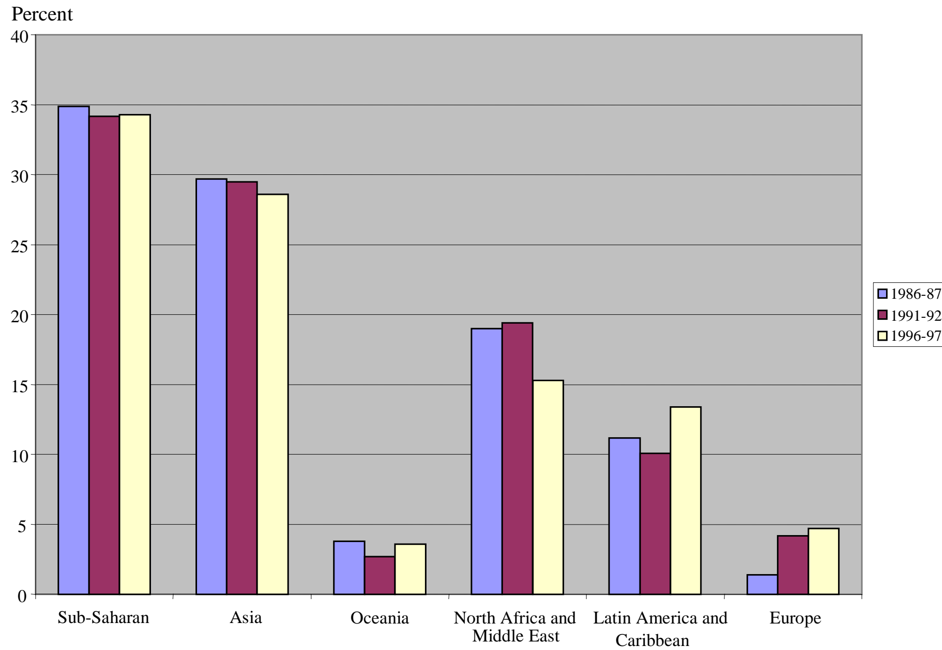
[1] OECD 1996.
[2] Cox 1999.
[3] Ehrenpreis 1999.
[4] Collier and Dollar 1999b.
[5] World Bank 1990, p. 4.
[6] German and Randel 1998; OECD/DAC 1999.
[7] Alesina and Dollar 1998; Alesina and Weder 1999.

Figure 10.1 Official and private flows from DAC countries to developing countries



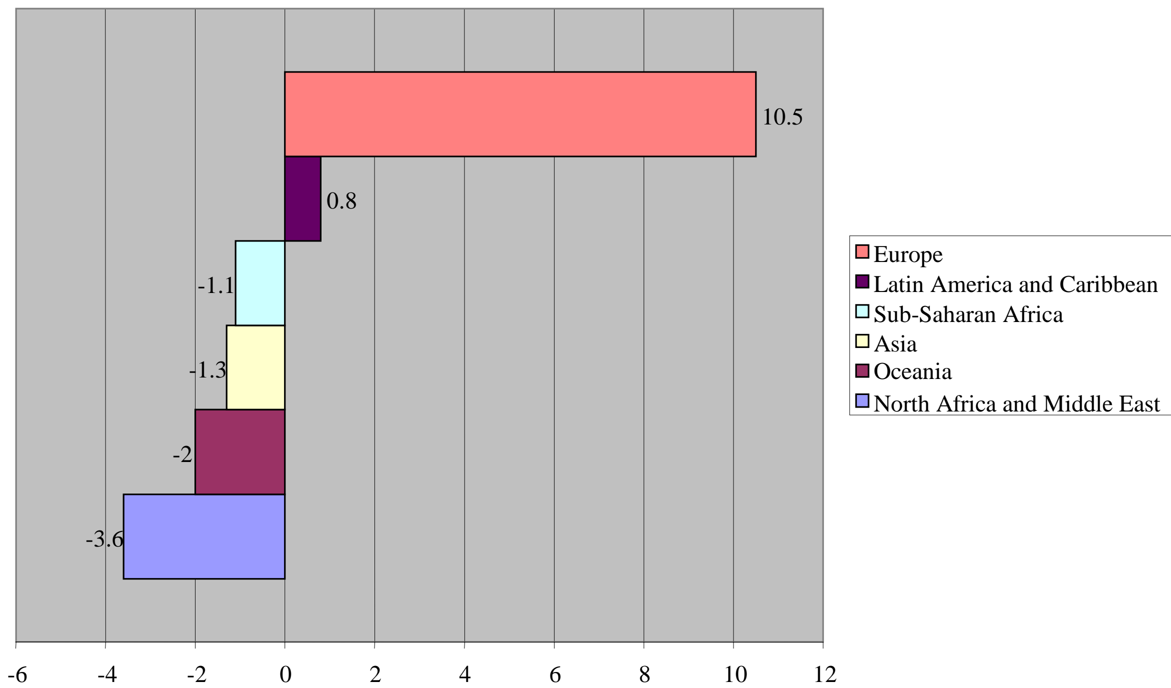
Source: OECD/DAC, various years.

Figure 10.2 Net receipts of ODA by region as percentage of total ODA flows



Source: OECD/DAC, various years.

Figure 10.3 Annual real percentage change in ODA receipts, by region 1987-97



Source: OECD/DAC, various years.

10.5 But perhaps the most striking cause of the decline in aid over the 1990s has been declining support from traditional proponents of aid. While the preeminence of geopolitical interests is not new,[8] those interests were often at least partly countered by constituency groups that argued for aid on humanitarian grounds. These groups were far less vocal in the 1990s, having fallen victim to "aid fatigue." In the United States, polls have shown that an overwhelming majority of the population favors foreign aid on principle.[9] However, over 80 percent of people think that waste and corruption prevent foreign aid from reaching the people who need it. It is not surprising, then, that almost two-thirds of them think that foreign aid should be reduced.[10] This kind of public disillusionment has further propelled donor governments away from aid. If aid is not working, the money should be spent elsewhere.

10.6 If even aid supporters are dubious, the fair question that the international community must ask is, "Does the decline in aid *matter*?" The answer obviously depends on how valuable aid actually is for developing countries, and that depends both on aid's value relative to other sources of capital—namely private capital—and on its effect on poverty.

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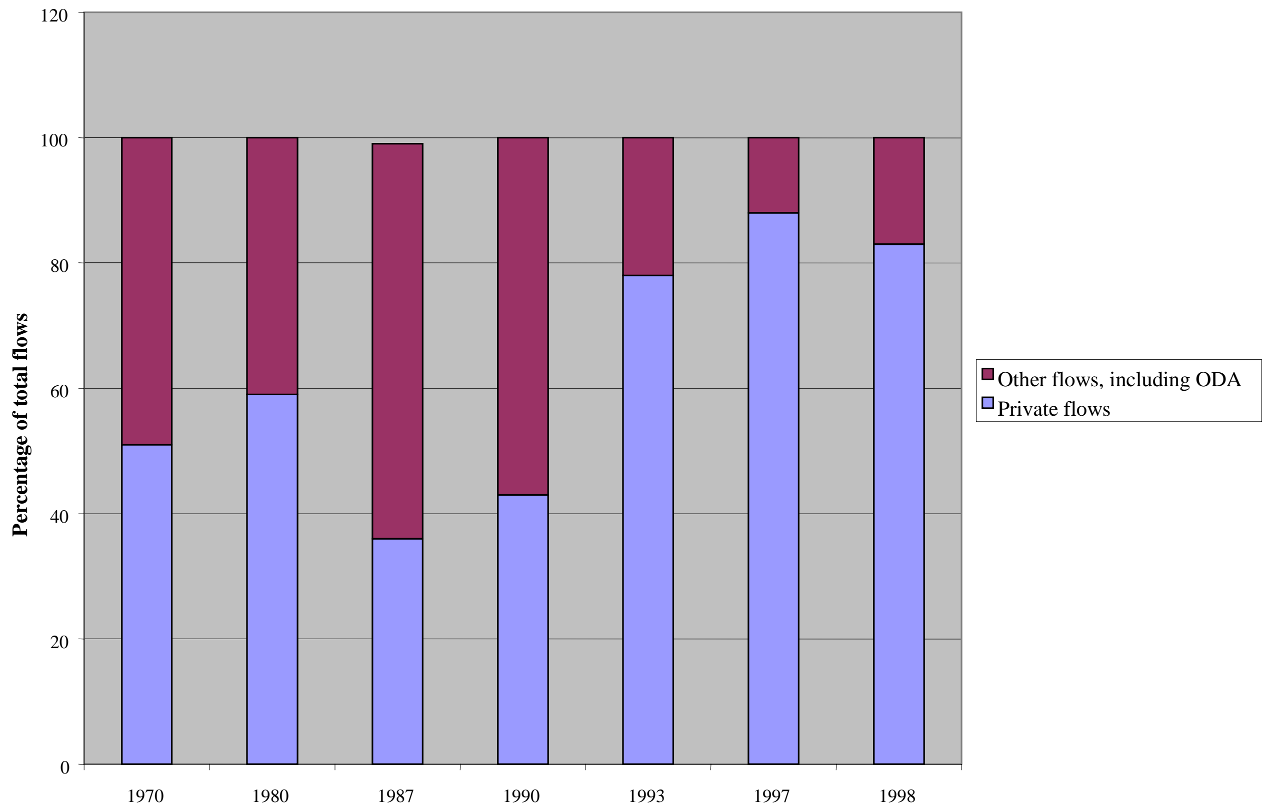
[8] See, for example, Schraeder, Hook, and Taylor 1998 and Maizels and Nissanke 1984.
[9] Kull, Destler, and Ramsay 1997.
[10] It should be noted that only 35 percent of people thought that aid should be cut when they were told the actual amount the U.S. spends on foreign aid.

Aid in relation to private capital

10.7 The decline of official development assistance has coincided with massive inflows of private capital to developing countries. Private flows reached $227 billion in 1998 and now dwarf aid flows in some countries (see figure 10.1).[11] Overall, private flows to developing countries have surged during the 1990s, from 43 percent of total resource flows in 1990 to 88 percent in 1997 (figure 10.4).[12] The share fell in 1998 as a result of the global financial crisis, but is likely to pick up again in its aftermath. Do these private flows mean that aid is now irrelevant?

Figure 10.4 Share of private flows to gross flows to developing countries



Source: OECD/DAC, various years.

10.8 In brief: no. Inflows of private capital have been concentrated in relatively few countries; large numbers of countries receive little or none. In 1997, before the financial crisis, the top 15 developing country recipients received 83 percent of private capital flows to developing countries, leaving some 140 developing countries and territories (with about 1.7 billion people) to share the remainder.[13] Almost entirely left out are the 61 low-income countries.[14] These are the poorest countries on earth, with

[11] World Bank 1999a.
[12] World Bank data (1990 figure cited in Lensink and White, 1998).
[13] World Bank 1999d.
[14] A low-income country is classified by the World Bank as having a 1997 GNP per capita of $785 or less.

one-third of the world's population, yet private capital does not reach them at sustainable levels. Their share of total private flows to developing countries increased during the financial crisis, but even then, in 1998, they received only 6.7 percent of flows.[15] If India is excluded, the figure drops to 3.7 percent. All of Sub-Saharan Africa received only 2.6 percent.

10.9 While some argue that private capital would go to these countries if they improved their policies, recent evidence casts doubt on this assessment. Studies have shown that while flows of private capital tend to go to developing countries with better policy environments, they are drawn to countries with larger GDPs all else being equal.[16] Smaller countries are likely to continue to have difficulty attracting private capital, even if they adopt "attractive" policies.

10.10 This means that official flows will remain important for many developing countries for some time to come. The question then is, how valuable are official flows? And how can they be made more valuable?

Aid's effectiveness in fighting poverty

10.11 The goal of aid is to fight poverty. The value of aid therefore lies in its effectiveness in fighting poverty. Recent studies have confirmed what anecdotal evidence has hinted at for a long time: in many cases, and in many countries, aid does not work.[17] With regard to economic growth, for example, the early prediction that aid would make up for a gap in the financing necessary for developing countries to grow has not been supported. If all the aid that went to Zambia over the years had gone into productive investment, and if investment were as important to growth as predicted, the country's per capita income would be more than $20,000 instead of having stagnated at $600.[18]

10.12 And yet there are also many aid successes. The eradication of smallpox and major assistance in the development of the Republic of Korea are just two. It has been estimated that, despite its faults, official development assistance sustainably brings 16 million people out of poverty each year.[19] So aid *can* work. The challenge for the international community is to understand how to make it work *consistently*.

10.13 This chapter outlines a vision for a reformed system of international development cooperation that will make aid far more effective than in the past. It argues both for changes in aid delivery mechanisms and a greater attention to the policy environments of recipient countries. This includes attention to the potential burden that debt can place on policy reform, as well as a clearer understanding of the options available to donors in interacting with countries that lack strong poverty reduction policies.

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[15] World Bank 1999a.
[16] Alesina and Dollar 1998; Lensink and White 1998.
[17] See Boone 1994; World Bank 1998a.
[18] Easterly 1997.
[19] Collier and Dollar 1999a.

Reforming aid

10.14 One reason for the modest record of aid in fighting poverty is that aid has long been driven by geopolitical interests rather than development interests, so it has often gone to countries whose policies were not focused on reducing poverty. However, aid's difficulties in reducing poverty go deeper than that.

Lack of consensus and key problems with aid

10.15 At no point in the last 50 years, even during periods of relative consensus, has everyone agreed on both the best development strategy and the methods for pursuing it.[20] When there has been consensus on the need for certain policies—such as pension reform—there has been disagreement on how best to implement them. When there has been consensus on how best to pursue development—such as through state-led or market-led development—there has been disagreement on what policies should constitute the development strategy. The result has been a wide variety of donor institutions with different mandates and perspectives operating in developing countries that often have not shared their perspectives.[21]

10.16 At the beginning of the 1990s, after the collapse of the Soviet Union and the end of the Cold War, there seemed to be a new, broad consensus—the "Washington Consensus."[22] To many, free markets and outward orientation had clearly proven themselves to be the most efficient way for countries to grow and develop. Some even said that the superiority of democratic governance and market orientation was so clear that it marked the "end of history," the end of human searching for the best way to manage societies.[23]

10.17 Unfortunately, as in the past, events began to undermine this certainty. Countries that adhered closely to the Washington Consensus did not grow as predicted, Russia being the most prominent example.[24] Some countries that went *against* the grain of the consensus—notably in East Asia—did quite well.[25] And with the global economic crisis in the late 1990s came a new debate over the benefits and costs of openness, particularly its pace and sequencing.[26]

10.18 Beyond a general agreement on the importance of macroeconomic stability and human development, there is again little global consensus on the policies and methods of a successful development strategy. This lack of consensus runs from the macro- to the micro-level. In health and education reforms, for example, there is "a

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[20] For a discussion of the changing consensus on development strategies over time, see Thorbecke Forthcoming.
[21] Kanbur and Sandler with Morrison 1999.
[22] Williamson 1990.
[23] Fukuyama 1993.
[24] Stiglitz 1998.
[25] For example, see Wade 1991.
[26] For example, see Rodrik 1999. For a slice of the wide ranging debate on the free flow of capital and the international financial "architecture," see Eichengreen and Mussa with Dell'Ariccia, Detragiache, Milesi-Ferretti, and Tweedie 1998; Krugman 1998.

bewildering multitude of national systems and experiences, with varied (and hotly debated) pros and cons associated with each."[27] Between state-led and market-led solutions lie a plethora of options, and the debate on them is far from over.[28]

10.19 This lack of consensus has had severe consequences for the effectiveness of development assistance. Four main issues regarding aid have been prominent in the 1990s—donor coordination, ownership, fungibility, and conditionality— and each in its own way reflects the problem of differing perspectives.

10.20 *Donor coordination*. Bilateral and multilateral donors bring their own histories, experience, ideological backgrounds, and agendas for development to their dealings with recipient countries. While understandable, this means that the array of donors in a given country can create an unworkable environment for the country government. The sheer number of donors and donor projects—each with its specific priorities and project-related conditions—can be staggering. At one point there were 405 separate donor-funded projects in the Mozambican Ministry of Health alone.[29] In the early 1990s, there were 40 donors and more than 2000 projects in Tanzania.[30] In Ghana during the same time period, there were 64 different government or quasi-government institutions receiving aid.[31] Coordinating these efforts into any sort of coherent development strategy—even at the sector level—is nearly impossible.

10.21 *Ownership*. Because donors and recipients often disagree, donors have looked for ways to ensure that their money is spent in the way they wish. These methods have included running their own projects, requiring detailed reports from countries on projects, and attaching "conditions"—usually policy-oriented—to the use of funds. Evidence now shows, however, that these efforts to ensure that aid is effectively spent reduce "ownership" by the recipient country and with it the effectiveness of the aid.

10.22 Analyses have shown that ownership is a key component of aid effectiveness.[32] A country's or direct beneficiaries' belief that a project or reform will benefit them strongly affects the effort they put into the activity. Without that belief and commitment, countries are unlikely to expend the effort needed to make the activity work, contribute their own resources to the activity, or continue the activity after the donor has left—all substantial determinants of project or policy success.

10.23 In addition to implementing conditions they may not agree with, recipient country governments spend too much time responding to the requirement of different donors, making it difficult for them to do what evidence says they should be doing: concentrating on local conditions and the beneficiaries of projects and policies. The net result of a thinly spread government effort is an overall lack of ownership of the development process and an absence of inputs by the people for whom the project or

[27] Nelson 1999.
[28] See, for example, Colclough 1996.
[29] Wuyts 1996.
[30] Van de Walle and Johnston 1996.
[31] Aryeetey 1996.
[32] Van de Walle and Johnston 1996. See also Collier 1997.

policy is ostensibly being implemented. A major research project on relations between donors and African recipients found that "in spite of some improvements, donors still tend to dominate the project cycle and pay inadequate attention to the preferences of the government or project beneficiaries."[33]

10.24 *Fungibility*. Studies have shown that aid funds allocated to a particular sector tend to free up for other purposes money the government would otherwise have spent in that sector on its own.[34] This means that in funding specific projects or sectors, donors may actually be helping to expand spending on sectors they would *not* like to finance, such as the military. This has profound implications for development assistance. Project-level evaluations of development assistance will not reflect the true impact of aid, since aid is likely to be freeing up resources for *other* activities.[35] And the efficacy of project-specific assistance is called into question:

> If funds are fungible, and the recipient's public expenditure program is not satisfactory, then project lending may not be a cost-effective instrument. If the country's public expenditure program *is* satisfactory, the donor may as well finance a portion of this program, rather than concentrate on individual projects.[36]

Therefore, even if donors and recipients agree on a specific project, the fact that they do not agree on an overall framework may mean that the aid is not used effectively.

10.25 *Conditionality*. Donors know that even successful projects will have a limited impact in poor policy environments.[37] A well-built school, for example, will be useful only if money is budgeted annually for teachers, books, and supplies (and if the economic environment allows children to go to school). This suggests that aid should flow more to countries with good overall policy environments and good policies for poverty reduction. However, studies have shown that this has not been the case.[38]

10.26 This finding would be understandable if aid were helping to spur policy *reform* by influencing countries to change their policies or by helping them do so. This has in fact been the intention of many donors, and it is one reason (fungibility is another) why donors have over the years decreased the share of their portfolio allocated to projects and increased the share allocated to program or policy-based aid.[39] Most of this aid has been tied to conditions on the enactment of certain policy reforms. But a series of studies during the 1990s has shown that this conditionality generally does not work. In fact, there is little relationship between aid and policy reform.[40]

10.27 Much of this failure has to do with the dynamics between aid donors and recipients. Recipients do not see the conditionalities as particularly binding, and donors

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[33] Van de Walle and Johnston 1996, p. 55.
[34] Feyzioglu, Swaroop, and Zhu 1998.
[35] Devarajan, Squire, and Suthiwart-Narueput 1997.
[36] Devarajan and Swaroop 1998.
[37] World Bank 1992.
[38] Burnside and Dollar 1997; Devarajan, Dollar, and Holmgren 1999.
[39] Mosley and Eeckhout Forthcoming.
[40] Alesina and Dollar 1998.

are reluctant to stop giving money because of the various political and bureaucratic interests involved.[41] As a result, compliance with conditions tends to be low, while the release rate of loan tranches remains quite high.[42] In countries with bad policies, aid has often supported the maintenance of those bad policies.[43]

10.28 In addition to failing to influence policy reform, policy-related conditions combine with project-related conditions, including donor-specific reporting and procurement requirements, and severely burden developing country administrators—a problem that has become more pronounced as conditionalities have expanded. Conditions on World Bank adjustment loans mushroomed during the 1980s and have continued to grow in the 1990s to encompass the expanding development agenda.[44] As one recent assessment put it: "Although much has been added to the conditionality menu since 1981, nothing has been taken off."[45] The time spent by government officials negotiating and monitoring these conditionalities is time that could be spent analyzing development problems and designing country-owned development strategies. Furthermore, the conditionalities themselves give the impression that recipient governments would not follow such policies on their own, which is not always true. Ownership has been shown to be central to the sustainability of both projects and policy reform. The fact that it is undermined by aid delivery is a fundamental flaw of current development assistance mechanisms.[46]

The solutions

10.29 While the current system allows donors the flexibility to support their own priorities, the net result is a fragmented system that undermines their efforts. The challenge for reform of international development cooperation at the country level is to accommodate different perspectives on development without overburdening the recipient or undermining ownership.

10.30 Achieving global consensus on a development strategy might be one solution, but history has not only shown that consensus is difficult to attain, but also that it is probably undesirable. Development is determined to a great extent by local conditions, including ethnic fragmentation,[47] social institutions,[48] social capability,[49] inequality,[50] and geography.[51] These variables significantly explain the variation in growth rates over the last 30 years.[52] Studies have also shown that external shocks—and

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[41] See Mosley, Harrigan, and Toye 1995; Collier 1997.
[42] See World Bank 1992; Mosley, Harrigan, and Toye 1995.
[43] Devarajan, Dollar, and Holmgren 1999.
[44] Killick with Gunatilaka and Marr 1998.
[45] Mosley and Eeckhout Forthcoming.
[46] Collier 1997; van de Walle and Johnston 1996.
[47] Easterly and Levine 1997.
[48] Collier and Gunning 1999.
[49] Temple and Johnson 1998.
[50] Benabou 1996; Perotti 1996.
[51] Bloom and Sachs 1998.
[52] Temple 1999. It is also likely that they have had an effect on aid effectiveness – see Hansen and Tarp Forthcoming.

the ability to react to them—can have as much affect on growth as policies.[53] Therefore, policies should vary to some degree across countries and be flexible, in order to adjust to both internal and external conditions.

10.31 This has profound implications for development cooperation. For one, it means that donors should pay much more attention to local conditions—not only economic conditions, but social, environmental, and political conditions too. This requires much more intensive work by donors in-country, and it also means that country governments themselves must be equal partners with donors in designing development strategies.

10.32 These ideas began to take hold in the development community in the late 1990s. Combined with new thinking on aid effectiveness, they have prompted a number of proposals to address the problems of aid. Three themes are most prominent: partnership, mechanisms that without unduly burdening the government encompass the overall policy and expenditure framework, and selectivity. Together, these form an international development cooperation agenda for the coming decade.

10.33 *Partnership*. Recognizing the importance of ownership and the problem of donor coordination, most donors have embraced "partnership" as a guiding principle in interactions between donors, governments, and citizens in developing countries.[54] Most partnership frameworks are a two-step process that begins with a partnership between the recipient government and its citizens, who have responsibility for developing their national development strategy. This strategy takes form through a consultation process between governments, civil society, and the private sector. The consultations are time-consuming, but successful countrywide debates of development goals have already taken place in Bolivia, Dominican Republic, El Salvador, and Ghana (box 10.1).[55] These processes are essential if the country as a whole is to fully committed to the development strategy.

Box 10.1 Ownership in Bolivia

In late 1997, the new government in Bolivia embarked on a process to analyze the country's development challenges and to prepare a National Action Plan to address them. A key component was a national consultation process that brought together a wide range of representatives of civil society (NGOs, unions, church groups, opposition parties, academics, and private sector) to discuss development constraints and propose solutions. This national dialogue lasted 12 days, and its results were presented to the government as input into the National Action Plan.

The resulting plan was based on four pillars, which now frame the government's five-year development program:

Opportunity: to generate higher economic growth with better distribution.

Equity: to raise the standards of living of disadvantaged groups in society.

Institutionality: to strengthen the institutional framework for better justice and a corruption-free administration.

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[53] Easterly, Kremer, Pritchett, and Summers 1993; and Rodrik 1999.
[54] See, for example, OECD (1996), UK Secretary of State for International Development 1997; World Bank Partnerships Group 1998a; UNDP 1999.
[55] World Bank Partnerships Group 1998a.

Dignity: to remove Bolivia from the drug circuit by 2002.

All discussions with donors now take place within the context of the plan. At a Consultative Group meeting in April 1998, donors pledged 45 percent more than they had in 1997. Donors have also been encouraged to formulate their strategies in support of the National Action Plan. The World Bank recently redesigned its country assistance strategy in the light of the National Action Plan, choosing to support three of the four pillars. The government has continued to take the lead in donor coordination, chairing the Consultative Group meeting in Paris in 1999, where it presented its version of the Comprehensive Development Framework (see box 10.2). Because of its progress in creating a national poverty reduction strategy, Bolivia is a key pilot case for the Comprehensive Development Framework.

Source: World Bank 1999b.

10.34 In the second step, donors' action plans are designed to reflect this development strategy. By forging partnerships among themselves and designing strategies in alignment with the country's development strategy, donors should achieve better coordination of development activities and lessen the burden on the recipient country.

10.35 The World Bank's Comprehensive Development Framework incorporates this new understanding. Like other partnership frameworks, it gives much more responsibility to the government.[56] Because many countries lack sufficient capacity, transition to this framework will be difficult, as trial efforts have shown (box 10.2). The effort is essential, however, since an equal partnership between recipients and donors is necessary for international cooperation for poverty reduction to be effective.

Box 10.2 The Comprehensive Development Framework

In 1999, the World Bank announced its new Comprehensive Development Framework, a tool for improving country ownership and donor coordination in development assistance. It is based on four principles: country ownership of the policy agenda; partnership with all stakeholders; a long-term, holistic approach built on national consultations; and attention to social and structural concerns as well as macroeconomic and financial issues.

The country develops its national strategy in consultation with civil society and the private sector, and then together with donors it designs a matrix linking development goals and development actors. The activities of each actor in support of each goal are listed in the matrix, revealing any gaps or overlaps.

The Comprehensive Development Framework is currently being implemented in 13 economies, which are at various stages in the process, reflecting different starting dates and country circumstances. The process has encouraged wide consultation between governments and their citizens, the design of comprehensive national development strategies, and enhanced partnerships between donors. Progress has been varied. Bolivia used the four pillars of its National Action Plan (box 10.1) to design its Comprehensive Development Framework and has agreed with donors on intermediate indicators to monitor outcomes. Other countries have not progressed as far.

The difficulties provide a number of lessons. It is clear that national ownership depends to a large degree on country capacity. The country must be able to consult with wide sections of its society as well as do the complex analysis necessary to design national strategies that balance macro-financial issues with social, structural, and institutional aspects. And the country must be able to implement the strategy.

Country ownership is impeded in many cases by weak capacity and the lack of strong plans to improve capacity. Further weakening ownership is the difficulty of building a consensus around a development strategy. The specific methods of consensus-building will vary, but the process will almost always be slow.

[56] Wolfensohn 1999.

Furthermore, ownership—and the country leadership that results from it—seems necessary to ensure donor coordination. While there is some evidence that individual donor country strategies are gradually aligning with national strategies, stronger government leadership will be required to accelerate progress.

Sources: Wolfensohn 1999; World Bank 1999c.

10.36 *Less intrusive mechanisms of development assistance that focus on the overall policy and expenditure environment.* Donors have used various means to influence recipient country policies. Policy conditionality, one of the main ways discussed above, failed to achieve its goals. Policy review processes have been another tool. Public expenditure reviews, for example, have been used to evaluate the level and composition of a country's overall expenditures, to discover ways to improve expenditure policy, and to make the use of donor funds more efficient. But several studies have found this type of intervention to be ineffective in many cases, largely because recipient countries have not been closely involved in these processes and so have felt little inclination to comply with the findings.[57] Perhaps more surprising, donor compliance has been weak as well. A recent evaluation of public expenditure reviews found their effect to be minimal on both recipient country policies and donor lending practices.[58]

10.37 Donors are therefore searching for mechanisms for strengthening policy environments that encourage country ownership rather than undermine it. One instrument that has received much attention is the sectorwide approach. The recipient government designs an overall sectoral strategy, and donors sign on to fund the *sector*, not individual projects. This resolves the problem of donor coordination by eliminating the need for it: all activity in the sector is conducted by the recipient country, using its own funds in addition to those of donors. This instrument responds to a broader policy environment while also ensuring recipient ownership. While this approach is too new to have a substantial track record yet, initial experiences are promising (box 10.3). In fact, it has been proposed that the principles guiding the sectorwide approach be applied to all development assistance (see box 10.4).

Box 10.3 The sectorwide approach to development assistance

In an effort to address the problems of ownership, donor coordination, and fungibility, donors have experimented with pooling their resources in support of a strategy the recipient government designs and implements. They have begun this by taking sectorwide approaches to development assistance in some countries. The country—in consultation with key stakeholders—designs a sectoral strategy and a budget framework extending several years forward, and donors are asked to put their money into the central expenditure pool for that sector. The approach has several benefits: it encourages country ownership of sectoral strategies and programs, it links sector expenditure with the overall macroeconomic framework, and it ensures coordination of donor and recipient activities.

The Zambian health sector has shown the potential benefits of a sectorwide program. In 1994, the government presented its National Health Policies and Strategies to donors and—to ensure equitable distribution of services and coherent implementation of the strategy—asked donors not to fund specific provinces or projects but rather to fund the Ministry of Health centrally. While hesitant at first, donors increasingly complied. An independent evaluation in 1997 found that, as a result of the reforms, "health

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[57] Berg Forthcoming. Also see World Bank (994 and Datta-Mitra 1997. Increasingly, recipient countries are being encouraged to participate fully in the PER process.
[58] World Bank 1998b.

workers are better motivated; clinics are functioning; funds are flowing to the districts; some modicum of decentralization is in place; [and] an important part of the private sector has become formally involved."[59]

This approach ensures full ownership by the country and eliminates donor coordination problems, but it also means great changes in donor-recipient relations, and there are likely to be difficulties in implementation. For example, several sectorwide programs have stumbled because of the recipient country's inadequate institutional capacity to implement its sectoral strategy. Lack of consistency with the macroeconomic program has been another problem. In addition, donors have had difficulty moving toward sectorwide arrangements. They often have too many requirements and have difficulty (or have little interest in) harmonizing them.[60] Furthermore, these arrangements mean greatly diminishing donor control and monitoring of exactly how specific money is spent.

These changes imply that gaining donor support for the approach will be difficult. A sectorwide approach therefore requires a confident recipient government, because under strict sectorwide programming, donors that do not participate in common implementation arrangements are not allowed to act in the sector (that is, they do not have their own projects). Because many donors are reluctant to give up the authority to monitor and implement their own projects, the result may be that donor funding of the sector is smaller than it might otherwise be. But the advantage is that the country has more ownership and control over what happens in the sector, and the result can be more efficient use of resources.

Box 10.4 The common pool approach to development assistance

Seeing the potential of the sectorwide approach, some have proposed extending the idea to the country level.[61] Donors would cede complete control to the recipient country government, advancing their own perspective on development strategy through dialogue with the country and with each other rather than through specific programs and projects. Instead of funding their own projects—as they would in the Comprehensive Development Framework—donors would give central budget support to countries with good development strategies (and the capacity to implement them). A country would first develop its own strategy, programs, and projects, in consultations with its own people and with donors. It would then present its plans to donors, which would put unrestricted financing into a common pool of development assistance, to be used with the government's own resources to finance the overall development strategy. Earmarking or donor monitoring and control of specific projects or programs would not be permitted, and no conditions would be placed on donor aid.

How much donors give would depend on their assessments of the country's policy environment, including how the country came to agreement on the strategy and its ability to implement and monitor the strategy's execution. In this way, the common pool approach would be a more rigorous form of conditionality, because donors would need to evaluate the overall policy environment, direction, and capacity of countries. These assessments would be made known to the country and to other donors during the dialogue leading up to the financing decision.

This approach would entail many of the same challenges that the sectorwide approach faces, including the need for a developing country with both the capacity to implement its strategy and the confidence to follow through with it even if donors do not support it. Furthermore, donors might resist national-level common pools because they would likely mean a reduction in donor staff, as donor agencies would no longer be developing and monitoring projects or negotiating or monitoring conditionalities. However, like the sectorwide approach, the common pool approach would ensure full ownership by the country and eliminate donor coordination problems.

In addition, the common pool approach would preserve two important benefits of the current development assistance framework: the knowledge transfer involved in donor-implemented projects and the support conditionality gives to reform elements in governments. Knowledge transfer is an important

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[59] Independent Review Team of Zambia's Health Sector 1997.
[60] Harrold and Associates 1995.
[61] Kanbur and Sandler with Morrison 1999.

side effect of aid. For example, a road building project might transfer knowledge of engineering or even project accounting to local workers. This would not be lost in a common pool arrangement, because no less knowledge would be transferred on a project just because the check came from the recipient country instead of a donor country. Recipient countries would be able to ensure knowledge transfer by their choice of companies.

Support for reform elements in a country is one of the only benefits of the present system of conditionality. Donor-imposed conditionalities can strengthen the position of reformers in debates with their fellow citizens or serve as a "self-imposed" constraint on recipient government officials. The approach to conditionality in a common pool arrangement would be far different, but it would not sacrifice this benefit. Donors could strengthen the hands of reformers by publicizing the overall criteria which they use to assess country strategies and modulate the volume of their assistance. This would form the basis for a more open and honest relationship between donors and recipients and preserve the benefits of the current conditionality while eliminating its problems.

10.38 *Selectivity.* Aid has often flowed into poor policy environments, a tragic waste since aid has been shown to be effective in reducing poverty in countries with a certain set of economic policies and overall institutional quality.[62] Aid will be much more efficiently used if it is selectively targeted to countries with both high poverty rates and effective policies and institutions.[63] If all aid money were allocated on this basis, a recent study argues, even the small present aid flows could lift 30 million people out of poverty each year instead of the 16 million currently helped.[64] In addition to being the best way to support poverty reduction, selection on this basis is also the best way to influence policy reform, because it supports difficult but necessary reform processes already in place and does not disburse money into bad policy environments.

10.39 While these arguments in favor of selectivity focus attention on the policy environment, they do not necessarily guide aid flows. As the experiences of the 1990s show, there is little evidence to support the view that there is a fixed set of "right" policies for growth and poverty reduction. Beyond consensus on the importance of markets and human capital lies a range of opinions and experiences that need to be reconciled with the particular internal and external conditions a given country faces.

10.40 For example, many studies have shown that external shocks such as terms of trade, export price instability, and even climate change can have substantially negative effects on countries' growth and poverty reduction (see chapter 6).[65] Not surprisingly, countries facing shocks have not performed as well as others on the policy front. Selectivity might cause these countries to get less aid. However, aid may be most needed in these countries, where it can serve to "dampen" the effects of shocks. And it has been argued that because of the situation in these countries, aid can make a larger difference (and therefore be more effective) than in countries not suffering from shocks.[66]

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[62] World Bank 1998a. Such economic policies include low inflation, a balanced budget (or surplus), and trade openness. And the institutional quality involves rule of law, the quality of public bureaucracy, and the avoidance of corruption.
[63] Eccles and Gwin 1999.
[64] Collier and Dollar 1999a.
[65] See, for example, Guillaumont, Guillaumont Jeanneney, and Brun 1999, Rodrik 1998, and Collier and Gunning 1997.
[66] Guillaumont and Chauvet 1999.

10.41 Selectivity is important. But "good" policies—and whether or not they should be supported by aid—will likely vary by country, influenced by both internal and external factors.

Difficulties in implementation and practical steps

10.42 These three themes provide the framework for substantially improved international development cooperation. But progress toward that vision will be difficult. Each component of improved development cooperation will entail great challenges in implementation.

10.43 For example, while almost everyone agrees that partnership is a good idea, there is no consensus on what partnership really means or how it can be implemented.[67] Some analysts have noted that ownership is often relative, and that reaching consensus on strategies is essentially a political process, involving the same power relations that often discriminate against the poor (as seen in chapter 3).[68] Others have voiced doubts that donors will really be able to come to terms with the implications for their actions: that donors should interfere less in recipient country policymaking.[69] Many donor practices run against the idea of partnership, such as maintaining control over the monitoring of resources, emphasizing projects that enable them to "raise a flag," and tying aid to specific procurement requirements.[70] And perhaps the foremost challenge is the recipient country's capacity to design and implement development strategies and its willingness and ability to hold broad consultations with society. All of these challenges will need to be met in the coming decade if development assistance is to be made more effective.

10.44 With this in mind, several steps can be taken (and are already being taken in a small number of cases) to move international development cooperation in the necessary direction:

- *Move the donor-recipient dialogue to the recipient country and turn leadership over to the recipient country.* Most donor-recipient consultations—Consultative Groups or Roundtables—still take place in Paris or Geneva. This prevents groups from the recipient country, particularly civil society, from participating in or observing the process. The meetings are often chaired by the World Bank, United Nations Development Programme, or another donor institution. Meetings should be held in and chaired by recipient countries.

- *Make technical assistance demand-driven.* Turning increased responsibility over to recipient countries for designing national development strategies and leading consultation meetings means that recipient countries will need to develop capacity quickly. Auditing

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[67] Cox 1999.
[68] For an analysis of this process with regard to environmental policies, see Seymour and Dubash Forthcoming.
[69] World Bank Partnerships Group 1998b.
[70] Ministry for Foreign Affairs of Sweden 1999.

and accounting skills will be essential if donors are to be expected to relinquish monitoring and control of projects. However, technical assistance, the obvious choice for building such capacity, has a spotty record at best, particularly in countries where capacity is already weak. The main reason is that technical assistance has not been demand-driven.[71] Instead, it has often been tied aid (requiring a company in the donor country to provide the technical assistance) and has often been designed to develop capacity to comply with specific donor reporting requirements. Instead, technical assistance should be one of the first items incorporated into a national strategy and expenditure plan, with the recipient government deciding what assistance it needs and who should provide it.

- *Continue to experiment with sectorwide approaches*. National capacity—and donor-recipient partnerships—can be built up sector by sector. While many countries will not have the technical capacity to monitor funds to the satisfaction of donors for some time, capacity may be more advanced in some sectors than in others. The advanced sectors should be funded through sectorwide approaches as soon as possible.

- *Relieve more debt*. Debt relief for the poorest countries is essential for effective development cooperation (see below). Heavy debt burdens reduce incentives for policy reform, while debt negotiations and the constant circulation of new aid money to service old debt greatly distract government officials from focusing on the needs of their citizens.

Attention to process

10.45 What the 1990s have revealed is that process is as important as policy in development assistance. While encouraging good policies is important, it is not enough. The way donors and recipients interact strongly influences the effectiveness of development assistance. Greater attention to local conditions and country ownership, less intrusive aid delivery mechanisms, and more focus on supporting strong poverty reduction environments over poor ones—these are the pillars for effective development cooperation as we enter the 21st century.

Debt relief

10.46 The most prominent issue in development cooperation at the end of the 1990s has been debt relief for the poorest countries. Part of the increased prominence has come from the steady increase over two decades in the indebtedness of a group of poor countries now referred to as the heavily indebted poor countries. And part of it—

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[71] Berg 1993.

arguably more of it—has come from the tireless efforts of nongovernmental organizations (NGOs) in developed and developing countries who have captured the world's attention by focusing on debt forgiveness by 2000. At the 1999 G-7 Summit in Cologne the G-7 announced an enhanced plan for debt relief (box 10.5). Financing remains an issue, but even once financing is settled, debt will remain important for development cooperation because of its effects on country policy environments and overall expenditure frameworks.

Box 10.5 The Cologne Debt Initiative

The Heavily Indebted Poor Countries (HIPC) Initiative to relieve the debts of the poorest countries was announced in late 1996. Realizing that the initiative did not go far enough, leaders at the G-7 Summit endorsed an enhanced HIPC framework in Cologne in July 1999. The Cologne Debt Initiative made changes to the eligibility requirements and to the timing of relief.

Eligibility. To be eligible, a country must be very poor, have an "unsustainable" debt burden, and pursue good policies. "Poor" is defined as eligible for grants from the International Development Association, generally meaning a per capita GNP of less than $925. An unsustainable debt burden is defined as a debt to exports ratio of more than 150 percent or (for countries with certain structural characteristics) a debt to government revenue ratio of more than 250 percent. These calculations will now be made based on actual data at the time of the "decision point"—after one Enhanced Structural Adjustment Facility (ESAF) program of the International Monetary Fund—rather than on projections for the "completion point" when the debt relief is actually given. "Good policies" are signaled by structural adjustment measures under a program of the ESAF. These eligibility criteria increase from 26 to 36 the number of countries likely to qualify for relief.

Timing of relief. The Cologne Debt Initiative provided for the possibility of "interim relief" for countries after they pass the decision point. A reduction in debt *service payments* is therefore possible even before a country reaches the completion point, although the *stock* of debt is not reduced until the completion point. This completion point, however, now "floats." In the earlier HIPC agreement, debt stock was reduced only after completion of two full ESAF programs—a minimum of six years. Now the completion point can be moved up if the country's performance is particularly good. And finally, the G-7 agreed that, on a case-by-case basis, relief should be front-loaded as much as possible.

The cost of the revised initiative is estimated at about $27 billion in net present value terms.

The effects of debt

10.47 Many heavily indebted poor countries spent as much as a fifth of their annual budgets on debt service during the 1990s, and some spent much more.[72] Because this is often more than the amounts spent on social expenditures, debt servicing is viewed by many as a severe impediment to these countries' improving the lives of their people.

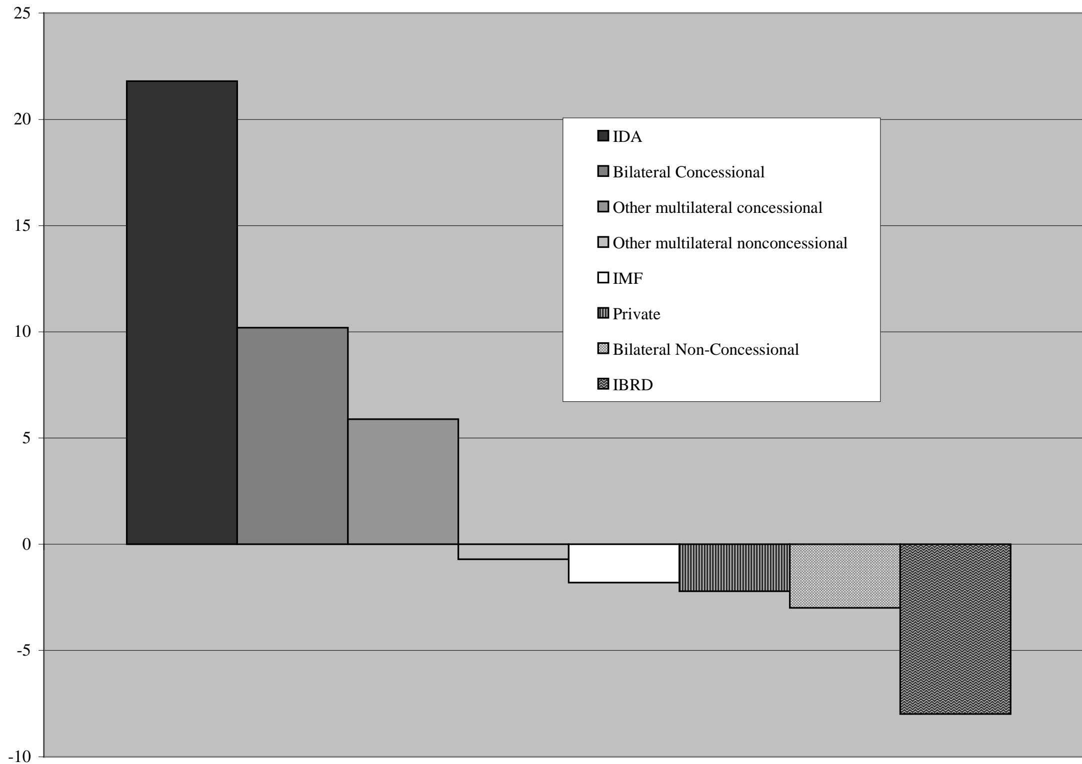
10.48 In fact, heavily indebted poor countries receive more money from donor countries than they pay back. Actual debt service payments are almost always far less than scheduled payments, because the countries are unable to make the full payments. The debts are serviced by rescheduling some loans and financing the rest through a combination of new loans and grants, in most cases to prevent the country from defaulting on loans.[73] Overall, net transfers on nonconcessional resources tend to be negative, but transfers of concessional resources tend to more than compensate (see

[72] Oxfam International 1999; Sachs, Botchwey, Cuchra, and Sievers 1999.
[73] Killick with Gunatilaka and Marr 1998.

figure 10.5).[74] While this may be acceptable in accounting terms, there are a number of problems with this merry-go-round of debt resolution.

- Many of the grants go not for budget support, but for extrabudgetary activities by donors. These are subject to all of the problems of ownership and donor coordination discussed above, and can also result in the further institutional weakening of an already weakened, insolvent state.[75]

Figure 10.5 Net transfers to heavily indebted poor countries by creditor, 1988-97 (in US$ billion)



Source: Easterly 1999.

- Resource inflows are highly unstable, especially with aid declining, making it difficult for governments to maintain sound fiscal policies. The uncertainty about what fraction of a scheduled debt payment will be financed from the country's own resources can contribute to macroeconomic instability (which discourages domestic investment).[76]

- Because debts are not serviced in full, countries' debt stock often stays the same or increases, a disincentive to investment and to policy

[74] Easterly 1999.
[75] Sachs, Botchwey, Cuchra, and Sievers 1999.
[76] For example, see Claessens, Oks, and van Wijnbergen 1993.

reforms that would help the countries grow.[77] Investors fear that a large debt burden and unstable resource inflows mean that future profits will be taxed to service debt. And, if a recipient country thinks that the benefits of difficult policy reforms will simply mean that creditors can get more of their money back, it is less likely to embark on policy reform.

- The constant negotiations and monitoring of debt payments are a tax on the time of government officials in heavily indebted poor countries, where the professional staff is already limited and stretched to capacity. Negotiation with individual donors—a months-long process—requires significant technical capacity and time spent outside the country.[78] Even if the resource transfers were consistent and provided central budget support, the transactions costs would be very high.

10.49 Therefore, as much as it is a problem of strict net flows, debt is problematic because of how gross flows affect ownership, policy, and capacity in the recipient country. Debt relief can ease these problems by lowering the gross flows and, if structured correctly, encouraging a better structure of net inflows.[79]

An improved HIPC Initiative

10.50 Like development assistance, debt relief should be delivered in a way that encourages country ownership, using instruments that take into account the overall policy and financial environment and favor good policies. Under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative (see box 10.5), debt relief will be granted to eligible countries with a viable and comprehensive poverty reduction strategy defined by a participatory process involving government, the private sector, and civil society. The debt relief will be integrated with other sources of external finance in the country's overall poverty reduction budgetary framework, rather than being conditional on increasing certain expenditures.[80]

10.51 The main elements of the poverty reduction strategy, the process used to develop it, and way it will be monitored will be spelled out in the Poverty Reduction Strategy Paper, a document endorsed by the country, the World Bank, and the International Monetary Fund (IMF).[81] The paper is to be produced in a transparent process with broad participation in the choice of goals, policies, and monitoring tools, and it is expected to align a country's macroeconomic, structural, and social policies with the goals of poverty reduction and social development (see box 10.6). The paper will also serve as the basis for designing World Bank and IMF lending operations. This

[77] Claessens, Detragiache, Kanbur, and Wickham 1997.
[78] Serieux 1999.
[79] It is unclear whether net flows will increase or decrease with debt relief. This depends on whether or not aid levels stay the same, and to what extent debts are being serviced in the first place.
[80] International Monetary Fund and International Development Association 1999a.
[81] International Monetary Fund and International Development Association 1999b.

framework will be tested in the heavily indebted poor countries, and in other countries with ongoing trials of closer collaboration between the World Bank and the IMF.[82] A similar framework was used with considerable success in Uganda (box 10.7).

Box 10.6 The Poverty Reduction Strategy Paper

The Poverty Reduction Strategy Paper (PRSP) is a tool to improve the effectiveness of donor-recipient relations. The paper will guide the actions of the World Bank and the International Monetary Fund, as well as other donors, in relations with the country that produces it. As important as the paper itself is the process leading up it. The strategy outlined by the government is to be based on a broad, participatory dialogue within the country with members of civil society and the private sector. The process is expected to encourage:

- Better understanding by national authorities of the obstacles to poverty reduction and growth in their own countries, and the identification and development of good indicators of progress in poverty reduction.
- Deepening of a shared vision across civil society on desired poverty reduction goals.
- The design of priorities for public actions to achieve the desired poverty reduction outcomes.
- The development of participatory processes for setting poverty reduction goals and monitoring implementation and progress.

At the end of this process, the resulting paper should reflect a broadly owned development strategy. While the actual form of the paper would be decided by the issuing country, most papers would likely include:

- Long-term goals for key poverty reduction targets, and the macroeconomic, structural, and institutional framework for achieving them.
- Six-month or annual targets that reflect progress toward the long-term goals, to assist the country and its donors in monitoring progress.
- A consistent macroeconomic framework that includes all of the policy and institutional underpinnings for rapid sustained growth and poverty reduction (including, among other things, institutional reforms, sectoral strategies, and the associated domestic and external financing needs).

Donors are expected to use the resulting strategy paper to guide their operations within countries. They may also need to assist in the process itself, by providing financial and cross-country expertise. As in other aspects of development assistance, the country should determine its own needs, so as to maintain ownership over this important process.

Source: International Monetary Fund and International Development Association 1999b.

Box 10.7 A model for implementing debt relief: The case of Uganda

Uganda's plans to use the returns from debt relief show how debt relief might fit into an overall poverty reduction strategy. In June 1997, the government adopted a Poverty Eradication Action Plan (PEAP) to address poverty and poor social conditions. The plan emphasized maintaining macroeconomic stability while increasing the incomes and the quality of life for the poor by developing rural infrastructure, promoting small and micro-enterprises, creating jobs, and improving health services and education.

The government created a Poverty Action Fund (PAF) as a conduit for the finance saved as a result of the HIPC debt relief (about $37 million a year; Cologne terms are expected to double this amount). The funds have been earmarked for spending on PEAP priorities, such as schools, rural feeder roads, agricultural extension, and district-level water and sanitation. Specific outcome targets have been identified, such as the construction of 1,000 additional classrooms to support the primary education program.

[82] Steps are being taken by the World Bank and the IMF to ensure that the development of PRSPs does not unduly delay implementation of the HIPC Initiative for countries with good policies in place.

A crucial feature of the PAF is the Ugandan government's effort to create a transparent and accountable structure of management. Reports on financial allocations are released at quarterly meetings attended by donors and NGOs. The Inspector General's office monitors the use of funds at the district and national levels. This self-imposed conditionality reflects the government's strong commitment to tackling corruption. But it is also an attempt to address creditor concerns about the capacity of a debtor country to link debt relief to poverty reduction. Several measures have been proposed for improving monitoring. These range from including district-level officials in the quarterly meetings, to community-based monitoring of PAF spending through local NGOs.

Source: UNICEF and OXFAM International 1999.

Helping the poor in countries with poor policies

10.52 While it is true that aid is most effective in good policy environments, hundreds of millions of poor people live in countries without such environments. Under the framework advanced here, these countries will likely not benefit from substantial inflows of aid or debt relief. How can the international community help the people in these countries?

10.53 First, it is important to distinguish countries that are facing unique circumstances that make it difficult for them to implement sound policies from countries that choose not to pursue effective pro-poor policies. For countries facing unusual circumstances, special actions may be necessary, particularly in debt relief.

10.54 The interactions between debt and policy are complex. A large debt burden can discourage policy reform because the benefits of the reform seem to go straight back to the donors. But debt relief alone will not improve policies. Twenty years of gradually increasing debt relief has not resulted in improved policies in highly indebted poor countries.[83]

10.55 Debt relief may actually encourage the continuation of bad policies by delaying reform. Countries with bad policies would likely be forced to reform much earlier without financial assistance (although at higher cost to them).[84] However, as countries have become increasingly indebted to donors, donors have become further trapped in a web of reschedulings, hoping that debtors do not default. Between 1989 and 1997, debt forgiveness for 34 highly indebted poor countries totaled $31.5 billion and new borrowing totaled $30.6 billion.[85] So instead of putting less money into countries with poor policies, donors have put more. Countries may have come to expect relief and resources, killing any incentive to reform.

10.56 The new HIPC Initiative has been designed to reward only countries that already have good policies in place. While this removes the incentive to retain bad policies, it will not help countries in which debt is itself an impediment to reform. Special considerations may be needed for these countries, especially countries emerging from conflict and needing to rebuild themselves. The situation is extremely fragile in

[83] Easterly 1999.
[84] Bruno and Easterly 1996.
[85] Easterly 1999.

post-conflict countries, and the window of opportunity is often brief.[86] Debt moratoriums or deep forgiveness may be appropriate. Consideration might also be made of countries who fall just outside the quantitative eligibility requirements of the HIPC Initiative but are attempting strong reforms. Debt forgiveness—perhaps on less than Cologne terms—and international support will make it easier for these countries to reform.

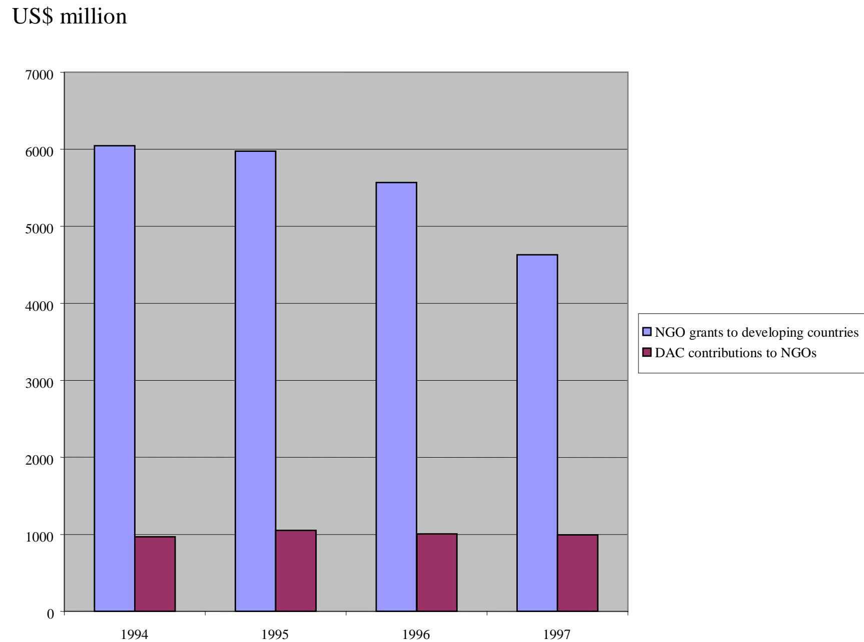
10.57 Countries that choose not to put pro-poor policies in place are a different matter. The best way for the international community to help people in these countries is to encourage their governments to design better policies. It is therefore essential that donors maintain dialogue with these countries. Combined with this dialogue, the revised system of development assistance advanced here would go much farther in encouraging reform than the present system, because countries will need to have good policies in place before they receive aid.

10.58 In the meantime, donors can continue to explore NGO channels as outlets for aid. Relationships between donors and NGOs are complex and difficult, and there is room for substantial improvement.[87] Good data on the extent and effectiveness of donor-NGO relations are scarce, but an estimated $1 billion in aid is now channeled through NGOs, in addition to the money NGOs raise on their own (figure 10.6). NGOs appear to be an effective channel for aid when they are involved early in projects (at the design phase), when they are chosen for their proven capacity and experience, and when they are treated as partners rather than contractors.[88] Donors should continue to improve their working relationships with NGOs, which can be effective partners in countries with good policies as well as bad.

10.59 But NGO projects, too, will be of only limited value in poor policy environments. Donors should therefore also look for other ways to assist the poor in these countries. There are many international public goods that could benefit the poor (see Chapter 9). Until certain countries devise appropriate policies, donors may wish to direct the money they would have spent on those countries to developing international public goods.

[86] OECD/DAC 1997.
[87] Van Rooy 1998.
[88] Gibbs, Fumo, and Kuby 1999. Also see Kruse, Kyllönen, Ojanperä, Riddell, and Vielajus 1997.

Figure 10.6 NGOs and development assistance



Source: OECD/DAC, various years.

Conclusions

10.60 This Report supports a two-pronged strategy for international development cooperation: an increased focus on the provision of development-related international public goods and an improved operational approach for the delivery of development assistance. These two parts are connected. Country-focused aid programs should be evaluated with international public goods in mind, and solutions to international public good problems should be addressed with country-focused resources in mind.

10.61 The mechanisms advocated here would be guided by an overall vision based on empowerment, security, and opportunity, the three-part strategy for development advanced in the rest of this Report. Evaluations of country development strategies, for example, should be based on how the country addresses these three criteria. And in addition to understanding the important differences in international public goods outlined in Chapter 9—and their implications for the use of development assistance—donors can decide which international public goods to assist by applying the criteria of empowerment, security, and opportunity.

10.62 What might this mean in a concrete sense? A list of several principles can be derived from the findings of this Report for use in guiding international development cooperation:

- *Actions to address inequalities—of assets, across gender and ethnic groups, and so on—that impede poverty reduction and growth.*

Examples: support in some countries for market-based land reform programs, such as the one in Northeast Brazil, to address asset inequalities in perpetuating poverty and impeding growth; a global program of removing gender bias in legislation and the operation of legal systems; accelerating the process of skill acquisition by the poor with demand- and supply-side interventions.

- *Support for making institutions of the state (both local and national) pro-poor and accountable to the poor.* Examples: ensuring the poor's access to legal services; providing training to local-level officials on treatment of poor women.

- *Support for capacity building for membership-based organizations that engage the poor in the formulation and implementation of policies and interventions.* Examples: scaling up the organizational impact of community-based organizations by supporting links among organizations (such as cooperative federations); a program to look at what kind of legal, regulatory, and institutional environments are most enabling for the poor.

- *Recognition of the importance of risk and vulnerability in the lives of the poor and the encouragement of further analysis of its impacts on poverty, efficiency, and growth.* Examples: a global program of research to develop local- and household-level knowledge on the nature of risks and how the poor cope with them; a major initiative to generate qualitative and quantitative information on the lives of the poor, in real time.

- *Development of a modular approach to protecting the poor against shocks, with different interventions—community, market and state—to address different risks and serve different segments of the population.* Examples: micro-insurance programs to complement micro-credit programs for poor women, built around their organizations; institutionalizing labor-based public works schemes, so that they are ready to roll out in response to negative shocks to the economy or a locality.

- *Stronger support for national and international efforts to prevent and respond to macro shocks (financial, natural, and other).* Examples: setting up "calamity funds" for dealing with natural shocks, as is being done in Mexico; support for new technology and training for better risk assessment and disaster communications systems; in financial shocks, avoiding policies that result in excessive contractions of real output and minimizing the impact of crises on the poor through macroeconomic instruments.

- *A clear recognition that universal prescriptions for economic policy reform (including trade and capital account liberalization, financial market liberalization, and privatization) are unlikely to succeed, that local realities matter, and that the success of liberalization in reducing poverty is contingent on institution building.* Examples: support for "micro-level" deregulation to increase the poor's access to markets at the local level; support for building adequate and accountable institutions and mechanisms before privatization.

- *For sectoral strategies, a recognition of strong cross-sectoral linkages; of cross-cutting impacts on empowerment, security, and opportunity; and of the importance of holding service delivery accountable to the poor.* Examples: explicitly exploiting cross-sectoral linkages— for example, between education and health, schools and roads, roads and health clinics, or girls' education and child-care facilities; improving the efficiency of education and health facilities through better monitoring and accountability.

- *Support for the provision of international public goods that benefit the poorest, and for participation by poor countries in discussions of global arrangements.* Examples: countering the current neglect by medical research of the problems of the poorest and supporting innovative solutions—such as vaccine purchase funds—to bridge the gap between private incentives for research and the needs of the poorest; support for the provision of global commodity price insurance instruments to address key price volatility problems of developing countries.

- *Debt relief and development assistance that support broad-based consensus on a poverty reduction strategy.* Examples: accelerated implementation of the enhanced HIPC Initiative and consideration of special measures for post-conflict countries; holding all Consultative Groups and Roundtable meetings in client countries, increasing the role of civil society and the private sector in such deliberations, and turning leadership of these meetings over to the recipient country as soon as possible.

10.63 The international community has set ambitious goals for poverty reduction. The framework for national action and international cooperation outlined in this Report can help make these goals a reality. We must not fail.

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