

It is probably neither possible nor necessary to measure aid to poverty reduction down to the last dollar. But if a common sense basis for comparing efforts on aid to the poor can be generally agreed, it will reduce disagreements among the donor community over how much aid is going to the poorest ... We urge development ministers to ... set a timetable for agreement on and adoption of a common methodology for measuring aid to basic needs and poorer income groups.

ICVA/Eurostep/Actionaid, 1995, **The Reality of Aid 95: An Independent Review of International Aid**, London, Earthscan.

1 Introduction¹

There is now considerable agreement that poverty reduction should be one of the principal objectives of both project and programme aid. To ensure that programme aid helps poor people, we must evaluate its effectiveness. To do this, we must know its poverty impact. That impact is two-fold and works through the programme's transfer of resources to the recipient country and through the policy changes which are conditionalities on the loan or grant. This is an exceptionally challenging task. Evaluating the poverty impact of project aid is difficult enough, but programme aid raises even more questions (OECD/IADB 1989). A short article such as this cannot hope to provide definitive answers. However, it can help in building a framework through which to seek out the answers.

According to OECD guidelines, aid is classified as programme aid if it supports the country's overall development strategy, or one or more sectors, rather than specific projects (OECD 1991). Programme aid includes World Bank structural adjustment credits and sector adjustment credits as well as loans and grants by bilateral donors.

¹ This paper is a shorter version of a paper (Addison, 1996) prepared for a workshop on 'The Evaluation of Balance of Payments Support' held at the Institute of Social Studies, The Hague 11-13 October 1995, sponsored by the Swedish International Development Authority (SIDA). The preparation of this paper was greatly helped by discussion with Aiden Cox, Michael Foster, John Healey, Tony Killick, Finn Tarp, John Toye, Kevin Watkins, and Howard White together with participants at the ISS conference. The usual disclaimers apply.

Evaluating the Poverty Impact of Programme Aid

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Programme aid evolved to finance the balance of payments deficits of developing countries, an urgent need which cannot be met by traditional project aid (Cassen 1994; White 1996b). The conditionalities which are usually attached to programme aid include: the liberalization of foreign exchange allocation and currency devaluation; tighter fiscal and monetary policies; reallocations within public expenditures; trade and industrial reforms; and agricultural policy reform (Mosley *et al.* 1991; White 1996b). Papers elsewhere in this issue of the *IDS Bulletin* provide more detail of the various programmes and policies.

2 A Framework for Evaluating the Poverty Impact of Programme Aid

The first task in evaluating the poverty impact of either programme or project aid is to identify in detail the channels through which it affects poor people. To do this it is useful to make a distinction between the **intermediate** and **final** objectives of the aid. This distinction is best clarified by considering an example from project aid, namely a water project in a poor neighbourhood. The project's intermediate objective is to improve the water supply. The final objective is to improve health. A project appraisal which sets out how the project's activities will achieve the project's intermediate objective, and how achievement of the intermediate objective will achieve the final objective, provides a strong foundation for subsequent evaluation. If the project achieves its intermediate objective (the water supply improves) then this suggests that the poor may have benefited. But to be sure we must collect information at the individual and household levels to determine whether the final objective was met (the health of poor people has improved).²

As in the case of project aid, the evaluation of programme aid is greatly helped when its poverty objectives (intermediate and final), and their linkage, are clearly specified, and when information is collected to verify the effects. How far are these two conditions met for programme aid?

These days most bilateral and multi-lateral programme aid documents cite the reduction of

poverty alongside economic growth as the programme's primary objectives. Donors are usually clear about how their programme aid, in providing budget support, will help to increase spending on primary education and basic health services; these intermediate objectives, and their relationship to the aid instrument, are therefore reasonably well-defined. If poverty data are available - a major caveat - then the effectiveness of the programme aid in financing basic social services and thereby improving the literacy and health of the poor (final objectives) can be evaluated in the ways discussed in Section 5 below.

Donors are not so clear about how programme aid will improve the livelihoods of the poor. Donors share the view that the resource transfer of programme aid plus the attendant policy changes increases economic growth and, one way or another, growth is accompanied by poverty reduction. This is not untrue; growth in which the poor participate is ultimately necessary for substantial poverty reduction. But it is too often assumed that programme aid will achieve substantial poverty reduction, especially when the participation of the poor in growth is already limited because they have too little human capital and too few resources.

Take for instance an agricultural sector adjustment credit - an important form of programme aid in SSA - for which the liberalization of export crop marketing is a condition. Such a credit should raise agricultural growth by providing resources for agricultural investment (in infrastructure for example), and by improving the pricing and marketing of export crops. The credit has potential for poverty reduction when inefficient state marketing and low producer prices have depressed farm income, which has been the case in many sub-Saharan African (SSA) countries.

Given this potential it is tempting to assume, as many adjustment credits do, that the liberalization of export marketing (the intermediate objective) will strongly reduce poverty. Whether poverty does decline depends, however, on how far the poor participate in the export sector (by producing export crops themselves or as agricultural wage workers)

² Small sample household surveys and participatory assessments are increasingly being used to do this. On

the appropriateness of each technique see Chambers (1994) and Salmen (1987).

and the extent to which their income rises (either because they produce more or because labour demand and wages rise). Given the constraints under which poor people make their livelihoods it cannot be assumed without investigation that the adjustment credit will significantly achieve its final objective (rural poverty reduction) simply if it achieves its intermediate objective (marketing liberalization). This point applies especially to the reduction of female poverty, since poor women are constrained by household time burdens and by discrimination in product, credit, and labour markets, all of which reduce their ability to take advantage of the new market opportunities offered by reform (Elson 1991).

Unfortunately, much programme aid fails to address these issues satisfactorily during its preparation. That is, the mechanisms by which the benefits of the resource transfer and policy changes are expected to transmit themselves to the livelihoods of poor people are not sufficiently identified, nor are the constraints which can block or limit the benefits. This makes subsequent evaluation of the poverty impact very difficult.

For example, evaluations of the World Bank's adjustment lending by its Operations Evaluation Department are rarely able to reach any but the most general conclusions about the poverty impact of these loans. Usually they conclude that the poor would have been worse off without the programme (the 'counterfactual' to adjustment). While in many cases this is true (but not for all the poor), the gap in evaluation means that it is very difficult to discover how the programme's benefits for the poor could be improved, and what additional project aid is needed to increase those benefits.³ Such opportunities can only be properly identified if during the programme's preparation clear poverty objectives and mechanisms are identified enabling the evaluator to assess how far the programme met, or fell short of, its intermediate and final objectives.

The second of our two conditions for the satisfactory evaluation of programme aid is the collection

of poverty information. Donors frequently cite lack of information as a reason why their evaluations of programme aid do not produce more robust conclusions about poverty impacts. This is certainly a problem, especially in Africa; statistical offices are often under financed, resulting in infrequent surveys, and insufficient poverty data.

But the lack of data is partly the result of a lack of attention to poverty in programme preparation. Activities to collect poverty information should be included so that the programme's poverty impact can be both monitored, and then subsequently evaluated (Addison 1993). The collection of poverty data should be seen as an integral activity of programme aid, just as it is now seen as desirable to make it an integral activity of projects. In a few cases this is now occurring, although not yet in a systematic way (see Norton *et al.* 1995 on Ghana and World Bank 1994b on Zambia).

Inevitably the information needed to evaluate programme aid will be more expensive and time consuming to collect than that for project aid. Instead of household surveys covering the locality or region in which the project is based, national household surveys are needed to understand programme aid's effects. Participatory assessments providing a national coverage of communities, rather than one or two in a project area, will also be necessary. To implement such large-scale information collection requires much more investment in national capacities.

3 Import Support and Poverty Reduction

In the 1980s many countries, especially in Africa, initially responded to their balance of payments difficulties by tightening quantitative restrictions on imports, in particular consumer goods. These restrictions were increased over time, and extended to imported inputs and capital goods as the policies which undermined export incentives (particularly currency overvaluation) remained unreformed, and therefore the amount of foreign exchange available

³ In the case of our example of an agricultural sector credit which improves price incentives project, assistance to raise supply response among poor farmers can include credit schemes targeted to poor smallholders in export-crop regions, extension and research services to develop

export crops suitable for resource-poor regions, and investment in economic infrastructure, especially transport infrastructure. Each of these has a gender dimension which must be identified to improve benefits to poor rural women.

to the economy steadily declined (World Bank 1990).

The resulting reduction in the supply of imported and domestically produced consumer goods led to a rise in their price and, when price control was imposed (a common policy response), supplies shifted to parallel markets in which prices were market determined but in which traders added a price premium to cover the risks of illegal trade (Roemer 1986). Loose monetary policy contributed to the inflation of parallel market prices and traders increasingly sold from 'under the counter' rather than at controlled prices. Consumers were rationed when attempting to buy at controlled prices, and increasingly found goods to be unavailable in parallel markets as their supply fell with the intensification of quantitative restrictions. The same processes occurred in the markets for inputs and capital goods. Tanzania prior to the launch of reform in 1986 is a good example of this decline.

Import support increases the availability of consumer goods, inputs, and capital goods, and therefore poor people will be less rationed in markets. At the same time as market rationing is reduced by import support, policy reforms such as changes in subsidies, trade policy, and devaluation will alter the market prices that the poor face. This raises further complications in assessing the overall poverty impact of the aid. To disentangle these effects it is necessary to assess the impact on the poor as consumers; the impact on their agricultural incomes, and on their employment opportunities outside agriculture.

For poor consumers the main benefit of import support is the reduction of rationing. At the same time, policy reforms will change consumer prices, sometimes adversely for the poor. For example a subsidy may be withdrawn without being replaced by targeted safety nets. Two sets of effects arise: direct welfare effects (increased welfare from increased choice) and health and nutrition effects (changes in the availability and price of goods critical to health and nutrition). The latter are particularly important in improving the welfare of women and children. Regular surveys and participatory assessments should monitor these effects (see summary matrix on p 32).

If the markets serving poor people are neither efficient nor competitive then the gains to them from the increased availability of goods will be diluted. Studies should monitor the market situation in poor regions, and measures can then be taken to improve market efficiency and competitiveness if problems are found (see the summary matrix in this article. Addison 1996, provides a more detailed discussion). The availability of consumer goods in poor areas is an intermediate indicator of poverty trends. However, increased availability of goods may not be accompanied by increased purchases by the poor, especially when reforms raise consumer prices. Therefore policy makers need information at the household level to check whether their final objective (poverty reduction) is being achieved.

Programme aid's impact on agriculture is critical given the incidence and depth of rural poverty in most recipient countries. Agricultural policy reforms, especially in marketing, alter the price incentives facing poor smallholders. Import support also reduces or eliminates rationing in agricultural input markets. To understand the rural poverty impacts the following analysis is necessary (see summary matrix): the construction of indices of real producer prices, and measures of the agricultural terms of trade for each crop; models which link up sector policies such as export pricing with household welfare indicators such as income and nutritional and health status (see for example Sahn *et al.* 1992); successive household surveys to track poverty over time; and participatory assessments in selected communities, for example those for which particular crops (and therefore particular marketing reforms) are especially important for livelihoods (Booth, *et al.* 1993).

In reversing the rationing of agricultural inputs, import support should improve food security. Benefits may include greater availability of critical inputs in poor areas and for women farmers, and increased crop diversification. Efficient input markets are necessary for these benefits to be realized. The withdrawal of input subsidies and price reforms may reduce input use by the poor. Small surveys and participatory assessment implemented during the reform process can provide information sufficiently quickly to indicate any problems for poor farmers and appropriate action can then be

taken (see for example von Braun, *et al.* 1990 on The Gambia).

Programme aid will also affect the livelihoods of the poor in non-agricultural activities such as manufacturing and services, in both the formal and informal sectors. The foreign exchange inflow will enable enterprises to obtain previously scarce imports of inputs and capital equipment. This will benefit small enterprises in the formal sector and informal sector enterprises since foreign exchange licensing usually discriminates against them and in favour of large enterprises.

The increase in capacity utilization will raise employment but the size of the increase will depend on how the labour market operates (Addison and Demery 1993). This can be monitored using official employment statistics for formal sector employment, and surveys and participatory assessments for the informal sector. The restructuring of the formal manufacturing sector will result from the liberalization of foreign exchange licensing, the reduction of import protection, and the withdrawal of subsidies. Some activities in the informal sector may also be affected. The poverty impact of these effects must also be monitored, and suitable project assistance established to help the poor find new employment.

4 Debt Relief And Poverty Reduction

Inevitably, the growth of programme lending has resulted in recipients accumulating large official debts. The debt problems of the group of 32 'severely indebted low-income countries' (SILICs) remain a major concern (Killick 1995, Oxfam 1996). Some bilateral debt has now been written off. SILICs continue to service their multilateral debts, and the IMF and the World Bank have been reluctant to write-off multilateral debt, although new initiatives on multi-lateral debt reduction were discussed at the spring (1996) meeting of the IMF/World Bank development committee (ODI 1995). Debt relief is a form of programme aid.

As a group, the SILICs owe most of their long-term debt to the bilateral and multilateral creditors (although some also have large commercial foreign debts). Debt depresses private investment and

therefore growth (the debt-overhang problem), and export earnings may be insufficient to service the debt (the cashflow problem). The debt-overhang problem is more important than the cashflow problem for countries receiving programme aid (World Bank 1994a). Some bilateral loans have been converted retrospectively into grants, thereby providing debt relief. While this is welcome, the relief of bilateral debt does not usually represent a transfer of new resources, since much of the debt is unlikely to be repaid in current circumstances. Relief of multilateral debt will provide new resources because new bilateral grants will no longer be used to service multilateral debt as presently occurs. Such additional resources will be important in restoring growth in the SILICs (Oxfam 1996).

If a country has a cashflow problem, debt-relief should have the same poverty effects as the resource transfer in import support, and the poverty impact can be monitored in the same way. In the case of an economy with a large debt-stock (i.e. a large debt-overhang problem), there may be considerable uncertainty among investors about economic prospects, making it very difficult for governments to convince the private sector of the 'credibility' of policy changes. Because much of the effect of debt-overhang depends on the expectations of investors, it is difficult to predict its macroeconomic effect, and therefore the impact on poverty of debt relief. If the reduction of debt-overhang results in a more stable macroeconomic environment, including better producer price incentives, then smallholder investment and income will grow. Given Africa's very low savings rate, inward investment is essential for economic growth and employment growth, and foreign investment is deterred by debt overhang. Debt-relief can have a fiscal effect when it reduces government interest payments, thereby facilitating increased budget allocations to pro-poor expenditures.

5 Countervalue Funds, Public Expenditures And Poverty

Programme aid provides countervalue funds. These funds can be transferred to the budget either with no conditions as to their use or with the donor imposing conditionality. They can also be used for off-budget expenditures. Donors now pay closer attention to the use of countervalue funds, and

therefore the overall structure and management of public expenditures in recipient countries. This is for two reasons. First, whether the reform of incentive policies yields growth depends upon the economy's supply response, especially in smallholder agriculture, and therefore on public investment in infrastructure. Second, it is widely agreed that expanding access to basic health services, primary education (especially for girls), and safe water and sanitation together with infrastructure and services serving smallholder agriculture, particularly women farmers and resource poor regions, are all crucial to poverty reduction, and all of these require increased budget allocations (Lipton and Maxwell 1992).

To ensure that countervalue funds are supporting pro-poor priorities, the poverty impact of public expenditures must be assessed. A first approach is to focus on the shares and levels of public spending on pro-poor services (see summary matrix). The public accounts can show whether these expenditures are increasing under the influence of countervalue funds and conditionality. World Bank Public Expenditure Reviews (PERs) are the traditional means for such comprehensive analysis, and these are now moving towards a more explicit poverty focus (see for example, World Bank 1994c). Unfortunately, the budget data are often of very poor quality and an improvement in government accounting and auditing is important from a poverty perspective (Toye and Jackson 1996). Moreover, off-budget programmes supported by donors and NGOs can make it difficult to accurately assess the relative contribution of donors and the government in funding pro-poor services.

While evaluation using budget data is essential, it has the drawback that in observing an increase in spending on pro-poor infrastructure and services we cannot assume that the poor necessarily use these services significantly. Budget data only provides an indicator of whether an intermediate objective (to increase pro-poor spending) is being met. Participatory and beneficiary assessment together with household surveys must be used to check that expenditures are actually benefiting the poor (the final objective). These techniques are valuable in increasing the focus of PERs on poverty and gender (see for example Devereux and Eiseb 1994). The techniques of benefit incidence analysis can be applied using household data to

determine the incidence of public spending across income groups (van de Walle and Nead 1995). A poverty information system which monitors some key and easily collectable indicators over time provides a warning of emerging problems in the allocation of public money. These indicators can include, for example, primary school enrolment rates in poor regions and the availability of key drugs in clinics in poor urban neighbourhoods.

6 Conclusions

To maximize the benefits of programme aid to the poor more attention must be given to poverty during programme preparation. Specifically, it is not enough to assume that programme aid will raise growth, and that the poor have enough productive assets and market access to achieve a level of participation in growth which will reduce their poverty substantially. Closer attention in programme preparation to the ways in which programme aid achieves its intermediate objectives, and much closer attention to the linkages between intermediate and final objectives, are essential if we are to understand how the livelihoods of the poor can benefit from both the resource transfer of programme aid and the attached policy conditionality.

A key priority must be to establish more processes for collecting poverty information: this implies building national capacities in the techniques of household surveys and participatory assessment. Methods for gathering information must be flexible to cope with a wide variety of country situations (what is possible for Indonesia's statistical office is not at present possible in Mali's) and be able to deliver information in a timely manner before it becomes out of date for policy purposes. It is equally important to build national capacities for using data to analyse the linkages between programme aid and poverty. In particular, data collected by national statistical offices must be freely available so that independent researchers can verify what is happening to the poor.

If these steps are taken during programme preparation then the evaluation of programme aid can move beyond the present situation in which we know too little about the impact, and in which it is very difficult to say whether the programme has achieved its poverty reduction objective. On this

basis, the poverty focus of future programmes can be further improved, and project aid can be used more effectively to increase the participation of the poor in growth.

The lack of attention to poverty by donors in the preparation of their programmes is surprising given that it leaves so much scope for criticism of aid and its policy conditionality. Criticism of economic reform in Africa might be less ferocious if donors attached to each programme clear and detailed

statements of what they hoped to achieve for the poor. Then evaluations by those outside the donor community (most importantly opinion formers in the recipient countries) would at least be able to compare outcomes with intentions. In the absence of clear intentions, and a lack of relevant poverty information, the donors and their critics are left to talk past each other. This is one reason why so much of the debate on economic reform and its poverty impact seems to have barely moved on from what was said in the 1980s.

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Summary matrix: evaluating the poverty impact of programme aid

	Evaluation Using Intermediate Objectives (market changes and infrastructure investment)	Evaluation Using Final Objectives (Poverty Reduction and Human Development)
Import Support		
Consumer Effects (direct welfare effects, and health and nutrition effects)	<p>Market surveys to check availability of consumer goods in rural areas and poor urban neighbourhoods and efficiency of markets</p> <p>Market surveys to check availability and pricing of goods important to health and nutrition following reduced foreign exchange rationing</p>	<p>Participatory assessment using recall data of availability of goods</p> <p>Questions on the availability of goods in national household surveys and in smaller surveys focused on remote rural regions</p> <p>Investigation using participatory data and survey data of impact on health and nutrition (especially of women and children) of changes in the availability and pricing of consumer goods</p>
Agricultural Income Effects (policy reforms and reduced rationing of agricultural inputs)	<p>Construction of indices of real producer prices (eg ratio farm-gate price to world price for exportables) to track market impact of reform</p> <p>Market surveys of availability of agricultural inputs and capital equipment following reduced foreign exchange rationing and efficiency of market following liberalization</p>	<p>Models linking sector policies with household welfare outcomes (and small surveys to collect data)</p> <p>Successive national household surveys for data panel and multi-variate analysis of impact over time</p>

	Evaluation Using Intermediate Objectives (market changes and infrastructure investment)	Evaluation Using Final Objectives (Poverty Reduction & Human Development)
		<p>Participatory assessments in selected communities (eg. those affected by particular reforms)</p> <p>Information collection (using household surveys and participatory assessment) and feed-back system to check poverty impact of liberalization on availability and pricing of inputs</p>
<p>Non-Agricultural Employment Effects (reduced foreign exchange rationing for manufacturing inputs and trade and industrial policy reforms)</p>	<p>Trends in formal-sector manufacturing output and employment (up-grade national employment statistics eg. gender decomposition of employment trends)</p> <p>Data on capital-labour ratios in the formal sector</p> <p>Collect data on trends in output and employment in informal sector (enterprise surveys)</p> <p>Market surveys of availability of inputs and equipment to informal sector following removal of foreign exchange licensing.</p>	<p>Surveys of formal manufacturing enterprises to determine incomes of formal-sector workers (ie poor or not)</p> <p>National household surveys with questions on formal and informal employment status which can be correlated with household income (successive surveys can track trends)</p> <p>City specific surveys of informal sector households and working of city labour market</p> <p>Participatory assessment to determine community impacts and impact on women micro-entrepreneurs</p>
Debt Relief		
<p>Cashflow Effect (debt-relief reduces foreign exchange rationing)</p>	<p>Evaluation same as for import support</p>	<p>Evaluation same as for import support</p>
<p>Debt-Overhang Effect (debt relief removes depressing effect of debt-overhang on investment)</p>	<p>Expectations of investors regarding economic prospects and evidence of increased investment (upgrade national investment statistics)</p> <p>Employment trends in manufacturing and agriculture (evidence of increase in labour demand as investment rises)</p>	<p>Surveys of new enterprises which arose after debt-relief to check incomes of workers</p> <p>Trends in poverty using national household surveys before and after debt relief</p>

Summary matrix: evaluating the poverty impact of programme aid (cont.)

	Evaluation Using Intermediate Objectives (market changes and infrastructure investment)	Evaluation Using Final Objectives (Poverty Reduction & Human Development)
	Expansion of social-sector and other pro-poor spending following reduction of interest payments on government official debt (see below on countervalue funds, public expenditures and poverty)	Evidence from household surveys and participatory assessments of increases in household welfare indicators following expansion social sector spending following debt relief
Countervalue Funds and Public Expenditures		
(reallocations of public spending towards pro-poor expenditures)	<p>Use public accounts data to determine shares and levels of spending on pro-poor expenditure items (basic health services, primary education, safe water and sanitation, infrastructure and services for smallholders, road infrastructure and power supplies to poor urban neighbourhoods)</p> <p>Use public accounts data to evaluate whether spending on pro-poor expenditures has shifted in proportion to provision of countervalue funds (if not check budgetary management etc to verify problems).</p> <p>Increase poverty (and gender focus) of PERs and bring off-budget spending into budget to clarify contribution of donors versus government to pro-poor spending</p>	<p>Participatory and beneficiary assessment to determine views of poor communities regarding their problems in accessing public services (education, health-care etc), and reasons (cost, travel time etc).</p> <p>Community level surveys to check provision of infrastructure and services</p> <p>National household surveys to calculate the incidence across income groups of public spending.</p> <p>Successive national household surveys can show how the incidence of public spending changes over time during the provision of programme aid. Track to establish whether public spending is becoming more progressive or regressive over time.</p> <p>Build poverty information system to monitor key indicators (maternal and child health etc) and alert governments and donors to problems</p>