I
Much public support for aid comes from the belief that aid would help the poor in the Third World. This is true not only of emergency relief aid, which is not covered here, but also of the longer-term relief of pervasive poverty. What has aid done, and what can aid do? A short answer is that it has not done much, as yet, and certainly not as much as was hoped for. Like all short answers, this has to be qualified. Some of the fashionable criticism of aid is either overdone or misplaced. Hard facts are difficult to come by. Strange as it may seem, there have been very few attempts at systematic evaluation of the impact of aid projects on poverty, by either donor or recipient. This is itself a reflection of the gulf that separates words from action.

Aid can both help and hinder in reducing poverty. However, it can only do so at the margin, so to speak, and always in the context of national policies and priorities, which it can influence positively or negatively but cannot override. In far too many developing countries, the poor have not been the primary beneficiaries of development. The limited impact of aid on poverty is part of that story. The problem of reduction of poverty is a problem of national policy in two ways.

Firstly, the number of ‘poor’ people is very large — according to one estimate, 644 mn in 1975 [Ahluwalia 1979]. Against that scale of needs, net aid, now and in the foreseeable future, is rather small for most countries with many poor people. In 1982 and 1983, it was about 1.0 per cent of GNP for India and Pakistan, 0.2 per cent for China and 2.2 per cent for all low-income countries combined. However, for some countries aid forms a much higher percentage of GNP — 8.2 per cent for low-income sub-Saharan African economies, 10.7 per cent for Bangladesh, and 10.1 per cent for the very poorest countries — those with per capita income below $600 in 1980 but a mean per capita income of $230 in 1982 [OECD 1984:74-5] excluding China and India. Secondly, the structural characteristics of poverty make it difficult for external resources or agencies to reach the poor, except in the context of a national policy that actively directs such a process.

Insofar as aid can assist the relief of poverty, it can do so in four main ways. By contributing to the overall growth of the economy, it can create the conditions for rising incomes, and greater availability of the goods and services consumed by the poor. By financing specific projects or sectoral outlays of particular relevance to poverty, by either donor or recipient. This is itself a reflection of the gulf that separates words from action.

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Insofar as aid can assist the relief of poverty, it can do so in four main ways. By contributing to the overall growth of the economy, it can create the conditions for rising incomes, and greater availability of the goods and services consumed by the poor. By financing specific projects or sectoral outlays of particular relevance to the poor, it can help to raise directly the private consumption of the poor. By investment in social infrastructure, it can channel income benefits to the poor, such as better education, health or family planning facilities. Lastly, it can help to promote, or hold back, processes of social and institutional change that are likely to benefit the poor. Such changes are often essential for a redistribution of income-creating assets, such as agricultural land, to small peasants and other low-income households. We discuss each of these areas of policy in the following section. Before that two general points have to be made.

Firstly, the separation that we have outlined above is merely a taxonomic device. In practice, different areas of intervention overlap. Successful sectoral direction of aid into minor irrigation in agriculture, say, promotes growth and welfare through increasing food production or perhaps, reducing seasonal fluctuations. Secondly, we should avoid too narrow or static a view of the aid process. There is some evidence of ‘learning by doing’, which admittedly works better intranationally, rather than internationally. And some of the benefits of aid have been unexpected. For example, the major positive impact of aid on poverty reduction

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in South Asia has been through the promotion of agricultural research.

II

The experience of countries such as South Korea or Taiwan refutes the proposition that there is an inherent contradiction between promoting growth and reducing absolute poverty, although the relationship between growth and inequality remains problematic [Fei et al 1979; Mason et al 1980]. Even some of the poorer countries, such as Sri Lanka, or some of the poorer regions in some countries, such as Kerala in India, have managed to bring about substantial improvements to the welfare of the poorer sections of the population, in terms of consumption, or literacy or health. The experience of countries such as South Korea or Taiwan refutes the proposition that there is an inherent contradiction between promoting growth and reducing absolute poverty, although the relationship between growth and inequality remains problematic [Fei et al 1979; Mason et al 1980]. Even some of the poorer countries, such as Sri Lanka, or some of the poorer regions in some countries, such as Kerala in India, have managed to bring about substantial improvements to the welfare of the poorer sections of the population, in terms of consumption, or literacy or infant mortality, despite modest economic growth [Isenman 1980; Sen 1981; UN 1975]. Nevertheless, in the poorer, populous countries of South Asia, and in most African countries, the number of people living in absolute poverty has been rising. The evidence relating to the proportions of the population living in poverty is ambiguous. Mostly for the 1970s, it indicates small changes, which are often statistically not significant. [For India, see Raj Krishna 1985.]

Much depends on the policies that are pursued for growth, and the nature of the growth process. With the exception of food subsidies and public works, which are discussed below, the ability of LDC governments, both financial and administrative, to bring about direct fiscal transfer from the better-off to the poor, is limited. Indeed, the tax-subsidy structure is quite often regressive. This is true at least for taxes on essentials, such as food items, although the very fact that the poor cannot afford many articles of common consumption protects them from the burden of taxation, just as an unemployed person is saved from paying income tax [Ahmad and Stern 1981].

The rural poor make up the bulk of people living in poverty in LDCs; therefore efforts to reach the poor should be concentrated in rural areas, given the degree of cost-effectiveness. Most work in agriculture, either as small peasants or agricultural labourers, and all of them spend a very large part of their incomes, say between 60 and 70 per cent, on food products of agricultural origin. Aid that increases the productivity of the poor peasants — better implements, minor irrigation, flood control or better rural roads providing access to markets — helps poverty and does not harm growth. Aid that destroys, or helps to destroy, rural jobs, such as subsidised mechanisation, harms the poor. Aid that is directed towards increasing food production helps the poor as consumers, by improving availability and reducing prices, and in the longer run, by encouraging agricultural research in situ. The problem is that too little aid does that, in spite of demonstrations that such aid yields as satisfactory rates of return as any [World Bank 1982a]. Even without aid to agriculture, too much helps to spread labour-displacing technologies, to create a market for donor country exports. The most obvious example of such practices is probably tractorisation of farming in South Asia, where the labour-displacing effects have been well documented [Binswanger 1978; Burch 1980].

It is not possible, indeed it is not sensible, to try and draw a sharp line between poverty-oriented policies and the more general policy framework which shapes the environment within which the poor, like everyone else, operate. Poverty-oriented aid policies are less likely to be fruitful if pursued either within an inappropriate policy framework or a worsening economic climate. Donor countries share responsibilities for both, responsibilities that have not always been wisely carried out. Recessionary policies in the international economy can destroy export prospects for agricultural commodities in the short run, and discourage investment in the long run in the export sector [Commonwealth Secretariat 1983]. High interest rates reduce the net availability of foreign resources, while inflation in DCs reduces the real purchasing power of aid.

An example of policy that is specifically directed towards LDCs is Structural Adjustment Lending (SAL). National policies in many sub-Saharan countries, as well as other LDCs, have often led to a structure of relative prices that discourages agricultural or export production [World Bank 1981]. SAL policies that call for ‘getting prices right’ can help the poor [World Bank 1982b], as in Malawi [Cassen 1986]. On the other hand, new investment in agriculture, or in rural infrastructure, might be needed to reap the full benefits of long-run supply elasticities. A dogmatic insistence on reducing public expenditure often works against such developments, and thereby negates the potential benefits. For, like it or not, neither commercial lending nor private sector investment is likely to be available to fill such gaps. Such activities will continue to be dependent on public sector investment, which will continue, at least in the medium run in sub-Saharan African and other poor countries, to be heavily dependent on aid. The cost of such adjustment falls substantially on the poor.

Aid forms a very high percentage of public expenditure in the poorer LDCs. For example, it is as high as 80 per cent for Mali, 56 per cent for the Sudan and 36 per cent for Tanzania [Cassen 1986]. Contrary to popular belief, much of public expenditure in poor countries is on social infrastructure, in power and transport as much as in health and education. While the share of the poor in these services may on average...
be small, they can nevertheless be the marginal consumers. In such cases, sudden decreases in such expenditure may shift the burden of the cuts disproportionately onto the poor [Cassen 1986].

Equally, any rigid insistence that the direct beneficiaries must pay for the benefits received may harm the poor. Charging for primary education, or rural water supplies, may not directly reduce the consumption of these particular goods and services, where demand is priceinelastic. It may still reduce poor people's consumption of other essential commodities, by reducing their residual purchasing power. On the other hand, a situation such as in Kenya, where 60 per cent of the beneficiaries were paying for only 15 per cent of the cost of supplying water, is also not sustainable. The answer, of course, is neither open-handed and non-selective subsidisation nor a crude rule of thumb of direct charging for all essential services. It is to look for the right balance of user charges against the total costs of provision to fit particular situations [Cassen 1986].

III
As mentioned earlier, there has been very little attempt to evaluate the poverty impact of projects in general, or even of the so-called poverty-oriented projects. An exception, to some extent, is India, where attempts have been made towards some general evaluations [Dandekar 1983; Rath 1985; Paul and Subramanian 1983]. Even such evaluations do not attempt to single out the effectiveness of the aid-component, if any.

The overall impression of the case studies that were carried out for Does Aid Work? was that donors had neither an overall strategy towards poverty-elimination nor did they pay adequate attention to the poverty-impact of aid-financed projects. On the recipient side, pricing policies, choice of technology, or ground rules determining access to scarce inputs, such as credit, all militate against the poor benefiting from project expenditure. However, reviewing a fairly wide range of the available material suggests that there are some general principles, for 'don'ts, rather than 'do's. As yet we know far too little about the nature and workings of the various forms of 'leakages' that deny the benefits of growth to the poor.

Firstly, there is no evidence of any inherent conflict between poverty-eradication and profitability. The average rates of return on IDA-financed projects compete favourably with those on the World Bank loans and loans from other donor agencies. In 1980, 80 per cent of IDA loans went to countries with per capita income levels of less than US $410, compared to 34 per cent for other DAC countries. For the period 1961-82, the corresponding figures for loans to low income countries below the same level, ie US $410 or less, is 81 per cent for IDA and 8 per cent for World Bank loans. For the same period, the proportion of IDA loans going to agriculture and rural development was 37 per cent, compared to 22 per cent for IBRD loans. Of course, what matters is precisely how aid funds are spent at the project level. However, an agricultural/rural development bias is not, ipso facto, unfavourable to the poor [World Bank 1982a, 1982b]. Indeed, from a poverty-oriented standpoint, the case for an IDA replenishment can hardly be overstated.

Moreover, there is further evidence that aid directed towards agriculture and the rural sector, towards irrigation or rural development, for example, benefits substantial numbers of low-income families, is cheaper in terms of investment per beneficiary and offers reasonably satisfactory rates of return. A fairly large sample of agricultural projects financed by IBRD puts the estimated incremental agricultural output over a ten-year period at around 37 mn tons and the estimated number of beneficiaries, not all poor but mostly small-farm households, at around 40 mn. Even allowing for a healthy dose of scepticism, these are not insignificant numbers. Of the total number of agricultural projects, around 80 per cent reached yields of 20 per cent or more. If that is not excessive, what is encouraging is that the proportion of absolute failures is remarkably small — around seven per cent [World Bank 1984].

Secondly, the poor are most likely to benefit from projects that are exclusively directed towards them, such as employment opportunities for unskilled labour, or increases in the supply of the cheaper food crops, such as millets or cassava, where it is more difficult for the better-off to hi-jack the benefits. The poor are least likely to benefit from large-scale, modern-sector projects; the indirect linkages are not strong enough [Faaland 1984]. Thirdly, complicated, multi-objective, integrated rural development projects very seldom produce the benefits they promise. Many countries do not have the administrative capacity or skill-infrastructure that are necessary for success. It makes more sense to design projects with clear and simple objectives, such as improved irrigation facilities, that can be implemented and monitored [Morris and Gwyer 1983]. In choosing such projects one cannot simply assume that national policies correctly interpret local needs, eg irrigation policies in India [Wade 1982] and rural development policies in Tanzania [Kleemeier 1984]. If the poor are to participate in, and benefit from such projects, the techniques chosen have to be accessible to them in terms of resources, being simple, inexpensive in terms of input requirements, and low risk. It is important to take account of locally available resources, and local agronomic conditions. Adaptability and flexibility
towards local needs and resources and conditions are important attributes [Morris and Gwyer 1983; Paul and Subramanian 1983]. Aid for tractors is a fairly clear case of aid that does not meet these criteria and that might make the poor worse off [Binswanger 1978; Burch 1980]. Livestock distribution for the landless, where good quality, healthy cattle are not locally available is another [Rath 1985; Cassen 1986]. Lastly, the involvement and direct participation of the intended beneficiaries in project design and implementation is an important means of ensuring that benefits reach the target groups. It is quite often the case, however, that projects which benefit the poor, benefit the better off even more, thus exacerbating rural inequality.

The impact that aid can make in the agricultural sector is critical to the well-being of the poor, both as producers and consumers. There is evidence that aid has been successful in this area by helping the poor as consumers, either by increasing the production of staple food crops or by increasing their availability to the poor. There is less evidence that aid has helped the poor as producers; it has not been particularly successful in redistributing productive assets to the poor. Aid has not worked miracles for large numbers, but it has made certain things possible, and some others less difficult, for significant numbers of the rural population — but only where national policies and priorities have not been pulling the other way.

Aid can help in three main ways. Firstly, it can provide inputs, such as rural credit or fertilisers, or it can operate capacity for producing inputs, eg by financing fertiliser factories or irrigation networks. Secondly, it can improve the distribution of a given volume of output over space or time, through the creation of better storage facilities or rural transport networks. The technological requirements of such schemes are often locally available, labour-intensive inputs, rather than expensive imported capital items, such as tractors. In such cases, what is required is local-cost support, subject to two general provisos that apply to all aid resources: such support has to be for a clearly specified period, leading towards self-reliance; and its foreign-exchange component has to be valued at an appropriate 'shadow price'. Thirdly, in the longer term, the most important contribution of aid has been to agricultural research, through technical assistance and other means. The relationship between expenditure on agricultural research and its consequent benefits in the form of a higher, or a more stable level of output is a complex one. However, it is undeniable that such expenditure has led to very substantial increases in agricultural output in South Asia [Krueger and Ruttan 1983].

Many of the poor, whether very small cultivators or landless agricultural workers, are net buyers of food, which forms the largest item of their expenditure. An increase in the production of foodgrains helps the poor by improving supply and preventing too high prices, at least for large countries where domestic food prices are not determined by world food prices. The impact of food prices on poverty in India has been noted in two recent studies [Nayyar 1984; Saith 1981]. The low priority given to agricultural research in sub-Saharan Africa, the low levels of government recurrent finance [though not of aid resources: Lipton 1985] devoted to research expenditure, the lack of high-yielding varieties of root crops, and the stagnation of agricultural production in sub-Saharan Africa stand in stark contrast to that experience [World Bank 1984].

Public works are a special category of projects designed specifically to help the poor. They are often linked to food aid. Food aid has given rise to many problems in the past, not least the possible disincentives to domestic food production. The problem that food aid poses is whether the consumption of the poor can be increased without depressing producer prices, which 'food for work' programmes can overcome by increasing demand pari passu with supply. Not all the consequences of food aid are negative; not all the negative consequences are inevitable. Much depends on the policy framework within which food aid is meant to operate [Clay 1984; Cassen 1986]. This is one area where there is evidence that countries might have benefited from 'learning by doing' and found that regional focus on small target groups is a helpful context for the operation of food aid programmes.

In two articles in the 1970s, John Lewis stressed the case for public works as a poverty-eradication policy [Lewis 1972, 1977]. It is one of the few direct means available to get at the rural poor, especially the landless poor. They can adopt flexible, labour-intensive technologies, with a high ratio of wages to total costs and lead to the creation of useful rural assets. Such rural capital formation only helps the poor, if the ownership vests in the poor, through, say, community development of self-help schemes, or the assets provide continuous employment opportunities at above subsistence wages to the poor. They can also help to raise agricultural wages. On the other side, many of them are 'non-viable make-work schemes', and make heavy demands on local administrative resources. Both wages and the assets they create can leak to better-off rural households, benefiting the landowning groups by raising land values. Rural public works are not always effective at providing continuous employment to the poorest groups of the rural population, but can raise the incomes of parts of the lower-income rural groups for significant parts of
the year [Burke et al 1976; Cassen 1986; Paul and Subramanian 1983]. In the absence of more effective policies, projects that can increase the incomes of groups with very low (even if not the lowest) incomes by perhaps small but proportionately large amounts can reasonably be accorded high welfare weights. The role that aid can play is not confined to provision of foreign exchange, but might include easing a budget constraint. Aid can help by increasing the fiscal capacity of national governments to replicate schemes that combine locally available manpower and other resources with simple technologies, thus increasing the population of beneficiaries, provided that foreign resources are valued at their 'shadow price'.

The success or otherwise of public works schemes in lessening poverty depends critically on ensuring that the wages that are created can be effectively spent on locally available wage-goods, without greatly pushing up their prices. Schemes like poverty-programmes are a roundabout means of increasing the essential consumption of the poor, especially food consumption. The question naturally arises: can aid not be used to directly increase that consumption, by direct food transfers to the poor, through rationing or direct subsidies? In the context of aiding 'the poorest', it is by no means a rhetorical question, as the poorest often cannot, for one reason or another, participate either in work or in benefits from asset ownership to a significant extent.

LDCs have experimented with two variants of such schemes: those aimed at whole (or at least a very large part of) populations, and those aimed at more circumscribed target groups. Aid has had a part to play in both types of schemes, and can do so in future. 'Fair price' food shops in India, and the rice ration in Sri Lanka, are examples of the first type, and various special feeding programmes aimed mainly at preschool age and young children are examples of the second. The Indian 'fair price' shops were initially mainly located in urban centres, and then, in effect, subsidised the marginal consumption of the higher income groups. The Sri Lankan welfare programmes, including a rice ration, provide a different story. Sri Lankan policy had a major impact, reflected in rising life expectancy, a falling infant mortality rate, and a high degree of literacy at relatively modest level of per capita incomes [Isenman 1980]. It has been argued that it was socially cost-effective by reasonable evaluation criteria; for equivalent gains to be achieved through the normal growth process, Sri Lankans would have to wait between 58 and 152 years! [Sen 1981]. The role of the subsidised rice ration was critical. Yet the heavy fiscal burden and donor pressure led to its dilution, almost immediately reflected in a rise in mortality rates and some decline in nutritional standards [Isenman 1980]. Here again is an example of non-selective ideologically inspired intervention by donor agencies, insisting on blunt conditions rather than helping the recipient countries to devise less financially burdensome, and more selective schemes.

The experience of special feeding programmes has been rather similar. It is true that the coverage of such schemes has been limited, reaching some low-income families rather than the 'poorest', and that there have been some leakages. Yet groups that would otherwise have been denied help were provided, and the 'leakages' were mainly confined to other members of poor families. Even where supplementary food rations were sold by the poor families, they presumably benefited from the income received. Where schemes were allowed to run for some time, especially in poorer urban areas, their performance improved, as in Tamil Nadu. And they still remain one of the few policy instruments that can have an impact on intra-family poverty [Cassen 1986]. Direct income transfers to the 'poor', if feasible, are often more cost-effective than special feeding programmes. However, political and other constraints often rule out the adoption of such optimal policies. In such a context, special feeding programmes may constitute a useful 'second best' alternative; their discontinuation on grounds of cost-ineffectiveness can leave the 'poor' even worse off.

IV

The other key inputs that are required for the well-being of the poor are literacy and health [Hicks 1980]. This social component of consumption is best provided through public investment in poor LDCs, which in turn can be financed through aid. Primary literacy is important because it improves access to technology and resources. Female literacy helps additionally in improving intra-family distribution and child-care practices, and in reducing fertility. The main social consumption components of improved health status are the availability of primary health care, pure water, and improved sanitation. Such investment as is required for health, not because unit costs need to be high, but because it requires a wide coverage for these facilities to make an appreciable impact on a large and dispersed population in rural areas. While import-content of such investment is low, or ought to be low if appropriate modes of delivery are chosen, recurring local costs tend to be high.

There are certain things that donors can do, and just as important is what they can avoid doing. What is often required is technical assistance, local-cost support, and improvements in local administrative structures. What is often not required is imported capital inputs, or urban hospitals. In the urban sector, improvement
in public health facilities, water supply for the poorer areas, and 'site and service' schemes, are all important examples of aid collaboration. That such collaboration can be effective in what might appear to be unfavourable environments is exemplified by the Calcutta Metropolitan Development Scheme. The problem lies in the replicability of such schemes, which depend on local skills and initiative, as well as finance. Investment in roads, especially rural roads, and in transport equipment, especially spares and repair facilities, are important, not only in providing the urban poor access to jobs, but the rural poor access to limited health and educational facilities. The early emphasis in aid programmes on infrastructural investment was not wholly misconceived, although they were unduly capital-intensive in technology, and biased towards the better-off sections of the urban population.

V

Aid is more likely to make a positive contribution to poverty-reduction where national priorities and policies are poverty-oriented. The question arises whether donors can themselves influence those policies and priorities. The wider issues of 'leverage' or 'donor pressure' are not the concern of this article. The limited role of aid in bringing about institutional reform that would facilitate a firmer attack on poverty can be illustrated by choosing two examples from within the sphere of agricultural policy: land reform and institution-building.

The role of donor policy in land reform is likely to be limited. The political and historical circumstances in which land reform was implemented in Taiwan or donor pressure exerted in South Korea are not replicable. Where national policy is geared to such an objective, aid can help in overcoming particular constraints. Years ago, the World Bank laid down very specific guidelines for the Bank's lending policy, going so far as to exclude countries that were not willing to promote land reform policies [World Bank 1975]. Not surprisingly perhaps, such sanctions are seldom evoked; nor is it clear that such action would be fruitful, if it were to be another demonstration of 'donor power'. In some instances, however, such as in N.E. Brazil or the Philippines, the Bank's policies have significantly aided land reforms benefiting some poor groups.

The other area of institutional reform where aid may have a more direct role is in helping recipient countries to build up an efficient rural or local administrative structure. What are collectively referred to as 'problems of implementation' play a major role in explaining the failure of rural development strategies to help the poor. Quite often, success or failure in this sphere does not depend on the form of a grand design, but on careful project selection and planning, and the efficient performance of many detailed and related tasks over a sustained period, covering a large part of the rural population. The absence or weakness of the administrative structure at the local level acts as a major constraint. Aid can make a positive contribution here, not so much through the provision of expensive short-term technical assistance personnel, but through the supply of resources to develop the technical capacity of recipient countries to generate such skills. In addition, donor agencies can help through the international dissemination of knowledge. It is strange that the lessons learnt from the Indian experience with community development projects in the 1950s have to be relearnt in East Africa in the 1980s [Cassen 1986].

Too much has been claimed for aid by its supporters, and too much has been blamed on aid by its critics. Aid has in the past made little impact on poverty directly, not least because neither donors nor recipients had attempted seriously to direct aid and other resources towards the poor. Yet much can be learnt from the experience of the past to use scarce aid resources more effectively to make an impact on poverty. Given the magnitude and persistence of poverty, even small income and consumption gains for the poor would add significantly to social welfare.

In the end, part of the message is that the role of aid in the context of poverty alleviation is marginal. The final effects of aid are determined very substantially by how and where aid is used and the overall policy context within which it works. It is not possible, therefore, to draw up a manual of aid etiquette, a series of do's and don'ts. The following are among the points that one could put down as markers.

Firstly, there is a case for increasing the share of aid for countries whose national policies give priority to poverty-oriented policies. Unfortunately, these countries are not synonymous with the LLDCs.

Secondly, aid for particular sectors, such as agriculture or health, is likely to be of particular relevance to the poor. Of special significance are the supply of goods and services that figure prominently in the consumption of the poor, such as foodgrains, or rural water supplies. There is considerable evidence that the economic rates of return on such projects compare favourably with other types of project, even without any poverty weighting. However, the absence of any systematic poverty-weighting in the practices of donor agencies is a matter for some concern.

Thirdly, the choice of technology in aid-funded projects is a key area. Much of the evidence of aid practices actually harming the poor is related to the
choice of inappropriate technologies.

Fourthly, there is a case for aid to cover local cost support; and for technical assistance to generate local-level administrative capacity. These are necessary for the continuous and efficient operation of many poverty-oriented rural projects.

Fifthly, past experience with particular direct intervention programmes, such as food aid or direct consumption supplementation, might have lead to an excess reaction against such programmes. They are not optimal instruments of policy. But in a second-best world, there is a place for them and there is evidence of 'learning by doing' in these areas of policy.

Lastly, there is a case for a scaling down of expectations, of not expecting too much from a small volume of aid facing a very large number of people in poverty.

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