



Reducing poverty

The central
integrating factor
of Australia's Aid
Program



The Australian Government's
Overseas Aid Program

Foreword



The scourge of poverty is one of the greatest challenges facing the world today. In a world with enough for all, there are over one billion people living in extreme poverty - trying to survive on less than two dollars a day. These people lack food, shelter and water. They struggle for access to doctors and even a basic education. Tackling this challenge is the central integrating factor for Australia's aid program. It is a reflection of fundamental Australian values, as well as broader moral imperatives.

Since 1996, the Government has worked to focus Australia's aid program on reducing poverty and achieving sustainable development. This change in focus has been a critical one for Australian aid. There is now a greater emphasis on activities that focus on the needs of the poorest in the world community. An even more effective attack on poverty requires an approach that understands the big picture and the complex factors that lead to poverty. A thorough analysis of the causes of poverty, and how these causes can be best addressed, will further enhance the effectiveness of the Australian aid program.

This policy paper strengthens the framework under which the aid program addresses poverty. The four poverty pillars outlined in the paper are strongly linked to the sectoral priorities of the aid program, with a particular emphasis on the principles of good governance. Good governance means competent management of a country's resources and affairs in a manner that is open, transparent, accountable, equitable and responsive to people's needs. Although aid clearly has a role to play, the policies of our partner governments will be critical for mobilising domestic resources and international investment that are traditionally much, much greater than aid flows. Growth, the most effective weapon in the battle against poverty, is best achieved in an efficient, open, market-based economy. For markets to function, social norms and legal systems are needed that respect contract and property rights. Without the fundamentals of good governance, other direct approaches to poverty reduction may not be sustainable.

The Australian aid program focuses primarily on Asia and the Pacific, and continues to make a substantial contribution towards attacking poverty in our region. Levels of poverty in Asia and the Pacific have fallen by around 90 million people in the last decade. But there are still nearly 800 million people living in extreme poverty in our region, and this presents an immense challenge. This poverty framework is an important part of Australia's effort to meet that challenge.

A handwritten signature in black ink, appearing to read 'Alexander Downer'.

Alexander Downer
Minister for Foreign Affairs
April 2001

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Executive summary

Poverty – the central integrating factor of Australian aid

In its opening sentence, *Better Aid for a Better Future* states that “Mass poverty is the single most important economic and social issue on our planet today”. This Poverty Framework represents a refining of current approaches and a better articulation of the linkages between Australia’s aid program and poverty. It draws upon long-standing consultations with key stakeholders on aspects of poverty alleviation in Australia’s aid program and improved understanding in recent years of how best to reduce poverty. The Poverty Framework addresses a number of critical issues including: a definition of poverty, key strategies for reducing poverty, the importance of poverty analysis, principles for future action, and next steps.

Poverty – what does it mean?

Insights into the reality of “poverty” over the last decade highlight the complex and multi-dimensional nature of the term. In line with these improved understandings of poverty, the following definition will help guide the poverty framework:

“Australia’s aid program focuses on reducing the incidence and severity of poverty in the Asia-Pacific region. The poor are defined as those who suffer a level of deprivations such that they are unable to meet minimum standards of well-being.

Critical aspects of well-being include:

- adequate resources for attaining the basic necessities of food, water, shelter, and clothing
- access to acceptable levels of health and education
- accountability from state institutions and civil society, and
- freedom from excessive vulnerability to adverse shocks.”

This multi-faceted definition must be considered in the context of local circumstances. The understanding of poverty will differ between the slums of Jakarta and a fishing village in the Pacific. Work on understanding poverty should seek to link in with a partner government’s own definition of the poor, but not necessarily be limited to it. Given the difficulties of obtaining clear information on all these elements, analysis of poverty will often concentrate on material issues such as income, assets, and social indicators. However, direct poverty-targeted interventions should consider all elements of poverty.

Pillars of the poverty strategy

The poverty framework is based on four pillars:

- growth
- productivity
- accountability, and
- vulnerability.

These pillars indicate the range of areas of possible assistance from the aid program which emerge from poverty analyses. The pillars reflect the knowledge gained over the last few years on the most effective type of aid interventions to ensure a balanced and effective approach to reducing poverty.

Strengthening frameworks for sustainable and inclusive economic *growth* that will benefit the poor by

- encouraging sound macroeconomic policies, especially actions to avoid excessive debt levels or high levels of inflation
- supporting government expenditure and revenue policies that help ensure the poor benefit from growth (such as an adequate and equitable taxation system, and government programs that effectively target the poor)
- supporting developing countries to reap the benefits of trade and market liberalisation, and
- providing essential economic and social infrastructure, with particular attention to the needs of poor communities.

Supporting interventions that enable the poor to increase their *productivity* by

- facilitating access by the poor to key productive assets, including land and credit
- investing in the human capital of the poor in areas such as health and population programs, education and training, and agricultural technology transfer
- supporting activities that allow women to contribute and benefit from development, and
- investing in the future through support for programs aimed at lifting children out of poverty.

Encouraging governments, institutions and donors to be more *accountable* to the poor by

- improving the poor's access to and engagement in governance processes
- engaging with governments and civil society to remove barriers to the participation of the poor, including participation in decision-making
- helping to develop more effective, efficient and transparent administration
- strengthening law and justice, human rights, democratic institutions and developing civil society, and
- supporting actions that take account of disadvantaged groups in society, including minority groups, the disabled and the aged.

Reducing *vulnerability* by

- supporting activities and approaches that minimise the possibility of conflict, and are responsive both during and after conflicts to restore the basis for development
- challenging social practices that lead to exclusion
- investing in programs that will reduce the chances of natural or human catastrophes, or programs that will reduce the adverse impacts of such catastrophes
- exploring programs for government support to the victims of disasters
- developing comprehensive social support mechanisms in times of crisis, and
- working with small island states, especially those in the South Pacific, to overcome their special vulnerabilities.

Analysing poverty

The critical component for the poverty framework is that actions are based on a thorough poverty analysis. There is no point in focusing on poverty if there is not an understanding of the poor: who they are, where they are located, and why are they poor. This analysis must go further, however, and include an assessment of the most effective aid assistance given the nature of poverty in the location being assisted. This must be based on an understanding of the types of action that can be effective in reducing poverty (the four pillars of the poverty strategy) and the priority for these actions given the poverty situation, partner government programs, resource constraints and the actions of other donors. A poverty analysis must clearly reflect the fact that complex choices are required. As in most public choices, there will be complex choices about how best to proceed as there will be potential winners and losers from each intervention.

The choice between direct and indirect activities, and the nature of those activities, should be based on a poverty analysis. “Direct” impact activities are specifically targeted at a clearly defined poor beneficiary. “Indirect” impact activities operate at sectoral or national/state levels and include governance, policy dialogue and institution building activities. Indirect activities can also cover activities that help create further opportunities for the poor, such as well-designed and located infrastructure activities. An activity may work at both direct and indirect levels to address a poverty issue. Experience indicates that indirect activities often have the greatest medium to long-term impact on poverty reduction.

Poverty principles for action

Experience suggests several principles can increase the effectiveness of poverty interventions and reinforce the translation of poverty analysis into practical outcomes:

- articulation of poverty linkages
- partnership and ownership
- informed decision-making, and
- appropriate risk management and timeframes.

Future steps

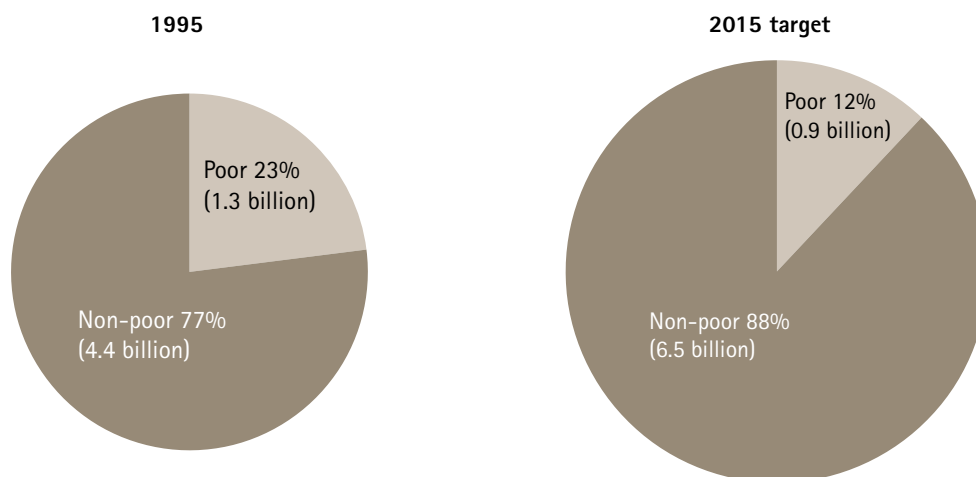
The critical future actions for further strengthening our focus on poverty will be using tools such as poverty analysis in preparation of our program strategies, as well as strengthening design and planning work for individual activities. Key documents will be revised to make more explicit the linkages between activities and reductions in poverty. AusAID will be working to increase its access to poverty-related skills. Information on the Australian aid program's poverty reduction framework will be made widely available, including through the world wide web.

The challenge—poverty in the Asia Pacific region

Mass poverty is the single most important economic and social issue on our planet today. At least 1.2 billion people, some sixty times the total population of Australia, live in extreme poverty. Poverty can mean many different forms of deprivation – there is no one set of poverty characteristics. But for this one-fifth of the world’s population, living on less than the equivalent of two dollars Australian a day, poverty often means a struggle for food, shelter, clean water and access to even the most basic levels of education, health, and other services. The poor are frequently excluded from being involved in decisions that affect them. They lack the power to hold decision-makers accountable. They are especially vulnerable to shocks such as droughts, civil conflict, illness and environmental degradation. Around 70 per cent of the world’s poor are women.

Our aid program, by addressing needs of the world’s most disadvantaged, is a clear statement of Australian values. Australia’s move to further focus its aid program on poverty reduction is also mindful of international targets aiming to halve the proportion of poor from 23 per cent of the world’s population to just below 12 per cent (based on a definition of the poor as those living on less than US\$1 per day). The extent of this global challenge of poverty reduction is illustrated in Diagram 1. Even if this ambitious target is achieved, the growth in the world’s population means that the number of people in absolute poverty will remain at just under one billion.

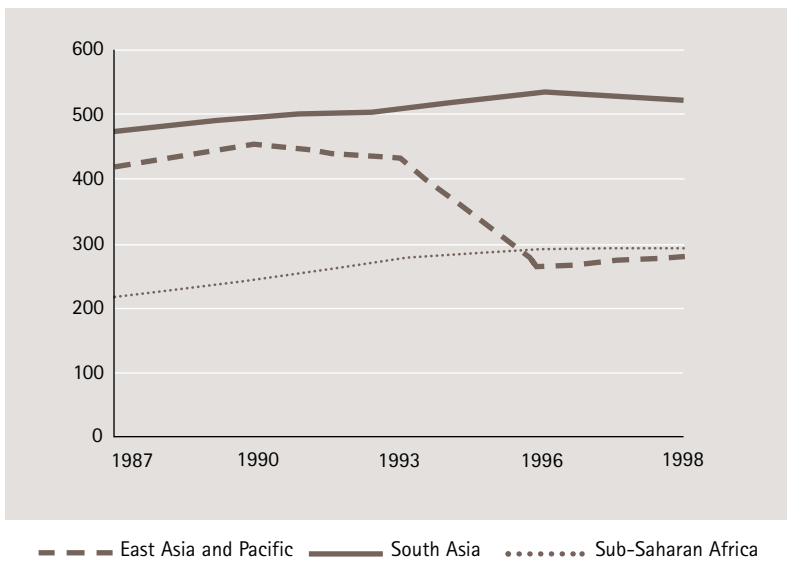
Diagram 1: International poverty target



Two-thirds of the world's absolute poor live in Asia and the Pacific (800 million people in 1998). Reducing poverty in our region is the key challenge for Australia's aid program, both because our region is home for the greatest number of the world's poor and because the international community expects Australia to have an important role in the region. The ray of hope in addressing this enormous challenge is the broad record of development successes in the East Asia and Pacific region, which has seen extraordinary reductions in levels of poverty over the last 40 years. For instance, between 1987 and 1998 the number of people living in extreme poverty in this region fell by some 140 million, even after allowing for the Asian financial crisis (Diagram 2). This decrease is in contrast to the pattern in other regions.

Overall, there has been an increase in the numbers living in extreme poverty over the last decade, with a decline in the numbers in East Asia being inadequate to offset fully the increase of over 155 million in other parts of the world. The primary reason for this reduction in poverty in East Asia is economic growth, and the nature of that growth (Box 1).

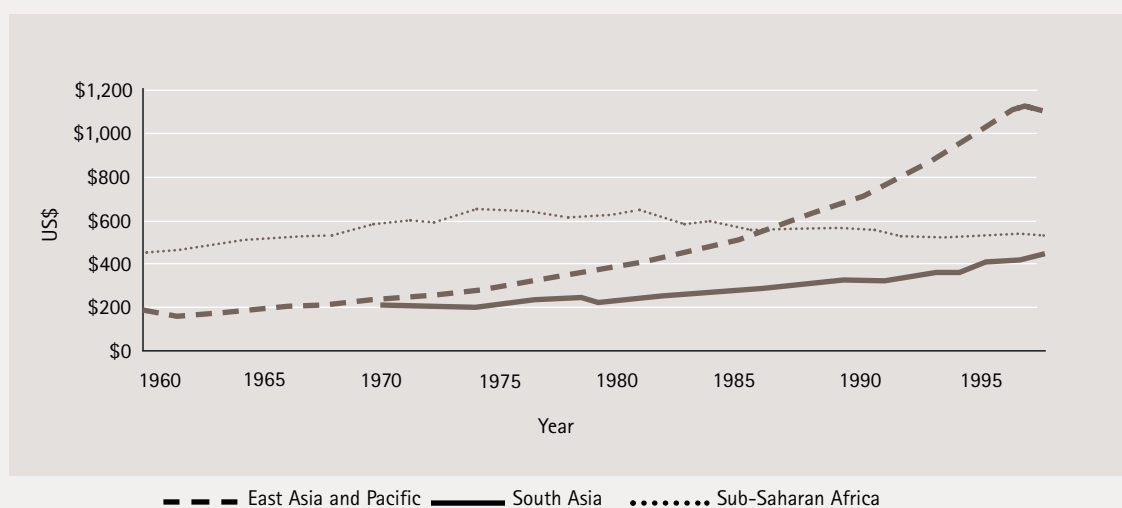
Diagram 2: Poverty trends by region
 People living on less than \$1 a day (millions) 1987–1998



Box 1 – Poverty and growth

Economic growth is the most powerful force for sustained poverty reduction. East Asia and the Pacific, areas that have experienced the greatest declines in poverty, have also experienced levels of economic growth unprecedented in human history. Average incomes have quintupled with real GNP per capita in constant 1995 US dollar terms rising from under \$200 in 1960 to over \$1,000 by 1998 (Diagram 3). Other regions such as South Asia have also seen quite remarkable increases in income, with an estimated doubling over the period. High population growth rates have meant, however, that the numbers in absolute poverty in South Asia have slowly continued to rise. Sub-Saharan Africa has seen little change in per capita incomes. Indeed, since the early 1970s, there has been a decline in average incomes, and a steady climb in the number of people living in absolute poverty.

Diagram 3: Poverty and growth by region
GNP per capita, constant 1995 US\$



Over the last twenty years, growth in consumption by the poorest fifth of the world's population has tracked economic growth with a 1-to-1 relationship. Growth is central but it is not enough. Experience in developing as well as industrial countries shows that it is not merely more growth but also better growth that determines how much welfare improves and whose welfare. Countries with similar incomes and growth over the past three decades have achieved widely differing outcomes in education, health and environmental protection. The impact of growth on poverty has varied enormously: in India, a given growth rate has cut poverty in some states by four or five times as much as in others. Experience has also shown that growth leads to larger and quicker reductions in poverty if measures are taken to empower the poor and enhance their security. In addition, economic growth has a greater impact on reducing poverty when income inequality is lower. For instance, income inequalities in Latin America are greater than East Asia. As a result, Latin America requires more growth to reduce the numbers of poor than does East Asia. Although economic growth correlates directly with reductions in absolute poverty, growth by itself neither increases nor decreases the level of income inequality.

Growth that will best reduce poverty is not just growth, but inclusive growth. This has also been called “pro-poor” growth, or “quality” growth. The characteristics of inclusive growth are still under debate although the following factors are acknowledged as important:

- market liberalization combined with responsible government, sound financial systems and the rule of law
- low inflation policies – hyperinflation has a particularly adverse impact on the poor
- steady rather than volatile growth – the poor lack assets to smooth their consumption in bad times
- investments in human capital such as improved access to education and health
- labour intensive growth that generates employment and incomes
- development of a conducive environment for private sector development that can generate jobs and incomes for the poor
- sustaining natural capital that is particularly linked to the incomes of the poor
- increased access of poor people to income-earning opportunities
- creation of opportunities for women and other disadvantaged groups, and
- increased productivity of the agricultural sector (especially in Sub-Saharan Africa, and South Asia).

Aid has an important role to play in reducing poverty in the region. However, total aid flows are only a small proportion of the total level of external financing provided to developing countries. In 1998, private net resource flows to developing countries from OECD members were nearly three times the size of official development assistance, although private flows can be volatile, as demonstrated by the East Asian financial crisis. Aid is an even smaller proportion of those resources generated by developing countries themselves from their internal resources (savings and taxation). Aid can be most effective when it assists partners to build the institutions, policies and practices that lead to improved development outcomes, including encouraging frameworks that encourage private flows.

The 1990s has seen a greater political commitment by donor agencies to poverty reduction. As well as supporting development activities that implicitly address poverty, donors have been drawing more explicit links between their interventions and poverty reduction. Multilateral institutions have similarly refined their focus on poverty. At the turn of the millennium, the Asian Development Bank issued a poverty reduction strategy, the International Monetary Fund affirmed its commitment to listening to the poor, and the World Bank’s *World Development Report* for 2000 was devoted to poverty (as was the 1990 *World Development Report*). Multilateral institutions are reinforcing their commitment to poverty through initiatives such as the Comprehensive Development Framework, Poverty Reduction Strategy Papers linked to debt relief, and Sector Wide Approaches.

Poverty—the central integrating factor of Australian aid

Fighting global poverty has long been a central rationale for aid. Humanitarian or development justifications for aid ultimately aim to address world poverty. However, aid has also pursued other objectives, not all of which have been complementary to poverty reduction.

In its opening sentence, *Better Aid for a Better Future* states that “Mass poverty is the single most important economic and social issue on our planet today”. *Better Aid* redefined the aid program’s objective to “advance Australia’s national interest by assisting developing countries to reduce poverty and achieve sustainable development”.

Over the last few years, AusAID has put extensive work into building the quality and sustainability of its development activities. The new poverty framework will inform the choice of priorities for Australia’s aid program and maximise our impact on poverty and sustainable development.

Direct poverty reduction: Qianjiang Poverty Reduction Project (China)

The Qianjiang Poverty Reduction Project aims to reduce poverty for over 100,000 rural households in up to 60 of the poorest townships in Qianjiang, and improve the institutional framework for poverty reduction in these areas.

The project has three main components: rural road construction; improved village water construction; and income generation/diversification. Better roads will give poor households better access to inputs and markets. Improved village water supplies will improve access to safe drinking water, reduce the time spent collecting water, and free up labour for other initiatives. Households will gain access to credit and micro-enterprise information, with a view to diversifying and increasing their sources of income, aided by reductions to the costs of production and increases in the value of marketed goods.

The project will increase the security of household incomes through skills training, improved technical and market information, vocational training centres, where necessary supported by micro-credit loans. The community will be involved in key decisions on project-related activities. Women will benefit through increased opportunities to improve their technical, managerial and marketing skills.

Local experts will be involved in the monitoring of the impact of the project on poverty. The results of monitoring will be used to inform project management and Chinese government policy.

Poverty—what does it mean?

Insights into the reality of “poverty” over the last decade highlight the complex and multi-dimensional nature of the term. Countries with the same level of income per capita have can have very different social indicators – for instance, some South Pacific countries have moderate levels of income per capita but poor social indicators (see Map 1). The understanding of poverty has expanded from an income or consumption-based measure, to one which includes many components such as social indicators, environmental and gender issues, accountability and vulnerability.

In line with these improved understandings of poverty, the following definition will help guide the poverty framework:

“Australia’s aid program focuses on reducing the incidence and severity of poverty in the Asia-Pacific region. The poor are defined as those who suffer a level of deprivation such that they are unable to meet minimum standards of well-being. Critical aspects of well-being include:

- adequate resources for attaining the basic necessities of food, water, shelter, and clothing
- access to acceptable levels of health and education
- accountability from state institutions and civil society, and
- freedom from excessive vulnerability to adverse shocks.”

This multi-faceted definition must be considered in the context of local circumstances. The understanding of poverty will differ between the slums of Jakarta and a fishing village in the Pacific. Work on understanding poverty should seek to link in with a partner government’s own definition of the poor, but not necessarily be limited to it. Given the difficulties of obtaining clear information on all these elements, analysis of poverty will often concentrate on material issues such as income, assets, and social indicators. However, direct poverty-targeted interventions should consider all elements of poverty.



Source: World Bank, *World Bank Development Indicators 2000*; United Nations Development Programme, *Pacific Development Report 1999*

Pillars of the poverty strategy

The poverty framework is based on four pillars:

- growth
- productivity
- accountability, and
- vulnerability.

These pillars indicate the range of areas of possible assistance from the aid program following a poverty analysis. The pillars reflect the knowledge gained over the last few years on the most effective type of aid interventions to ensure a balanced and effective approach to reducing poverty.

The four pillars are closely connected and tend to be mutually reinforcing. Each pillar incorporates key aspects of good governance, reflecting the pivotal importance of transparent, accountable and participatory government for the development process. Supporting fundamental elements of good governance, such as social norms and legal systems that respect contract and property rights, will provide a solid foundation on which to implement activities aimed at poverty reduction. Greater detail on each of these four pillars, including their rationale and relationships, is provided below.

Growth

Strengthening frameworks for sustainable and inclusive economic *growth* that will benefit the poor by

- encouraging sound macroeconomic policies, especially actions to avoid excessive debt levels or high levels of inflation
- supporting government expenditure and revenue policies that help ensure the poor benefit from growth (such as an adequate and equitable taxation system, and government programs that effectively target the poor)
- supporting developing countries to realise the benefits of trade and market liberalisation, and
- providing essential economic and social infrastructure, with particular attention to the needs of poor communities.

Economic growth is unquestionably the key contributor to poverty reduction. Studies vary, but economic growth alone is judged to account for the major proportion of the reductions in absolute poverty over the last three decades. There is also a better understanding of the complex circumstances in which the poor are even more likely to be included in the benefits of growth. Actions can be taken to ensure that markets work for poor people but this requires a good understanding of the policies, institutions, history and geography of countries that affect growth and poverty reduction. For example, low inflation growth policies are considered to be particularly beneficial for the poor. Public policies need to ensure that the poor are included in the benefits of economic growth. Good governance and establishing the rule of law are critical elements of this

pillar. This pillar encompasses the key macroeconomic and supporting social and environmental policies for supporting reductions in poverty.

Productivity

Supporting interventions that enable the poor to increase their *productivity* by

- facilitating access by the poor to key productive assets, including land and credit
- investing in the human capital of the poor in areas such as health and population programs, education and training, and agricultural technology transfer
- supporting activities that allow women to contribute to and benefit from development, and
- investing in the future through support for programs aimed at lifting children out of poverty.

Extensive studies have shown that the poor tend to operate in very sensible and efficient ways to protect their livelihoods. A lack of access to resources, and a need to take a very risk-adverse approach (where the stakes are often their children's and their own lives), limit the poor's opportunities to improve their well-being. This pillar recognises the range of assistance that can enable the poor, through better access to credit, markets, technology, health and education systems, to increase their productivity. The appropriate determination of clear property rights can be critical for assisting the poor to raise funds for income-generating activities. As some 70 per cent of the world's poor are women, it is critical that they are included in the development process. The first pillar focuses at the macro level, this second strategy focuses at the micro level of individuals and communities.

Accountability

Encouraging governments, institutions and donors to be more *accountable* to the poor by

- improving the poor's access to and engagement in governance processes
- engaging with governments and civil society to remove barriers to the participation of the poor, including participation in decision-making
- helping to develop more effective, efficient and transparent administration
- strengthening law and justice, human rights, democratic institutions and developing civil society, and
- supporting actions that take account of disadvantaged groups in society, including minority groups, the disabled and the aged.

Recent studies highlight the message that the poor consider their own governments, institutions, donors and NGOs lack accountability for how their actions affect the poor. The poor want to be empowered to be able to negotiate their interests with the private sector, government, and NGOs; and to have greater ownership of programs. Aid agencies can have a critical role in strengthening systems of governance that can improve accountability and provide better access to services, resources and decision-making by the poor. Strengthening governance and accountability arrangements reinforces other poverty pillars such as reinforcing appropriate policy settings and lifting productivity through investments in women's participation in development.

Vulnerability

Reducing *vulnerability* by

- supporting activities and approaches that minimise the possibility of conflict, and are responsive both during and after conflicts to restore the basis for development
- challenging social practices that lead to exclusion
- investing in programs that will reduce the chances of natural or human catastrophes, or programs that will reduce the adverse impacts of such catastrophes
- exploring programs for government support to the victims of disasters
- developing comprehensive social support mechanisms in times of crisis, and
- working with small island states, especially those in the South Pacific, to overcome their special vulnerabilities.

Recent studies of poverty have also highlighted the critical role that shocks such as illness, conflict, drought, cyclones, environmental degradation or economic crisis can have on the poor. The vulnerability of the poor is rarely addressed. History had demonstrated that development gains can be tenuous. If Australia does not continue to support conditions for stability, these gains may be lost. Vulnerability is a key concern for major recipients of Australian aid, whether in terms of the challenges faced by the isolation, natural calamities and recent political violence in the Pacific, or the financial crisis in Asia (Box 2).

These four pillars can be mutually reinforcing. Inclusive growth policies can be essential for allowing the poor to realise their opportunities for improving their productivity. Enhancements in access to education and health can be critical for allowing greater involvement in decision-making processes, and support wider moves towards greater accountability in government, society and private sector operations. Improved accountability arrangements increase the likelihood that broader policies, including those encompassing macroeconomic and microeconomic factors, include an analysis and redirection of the distributional consequences of those policies. Reductions in vulnerability will often be reinforced by other actions such as improved health services and better risk management in policy formulation.

Box 2 – Poverty and vulnerability

Poor people are generally at greater risk than other social groups of being affected by detrimental shocks. These risks come in many forms: the World Bank, for example, differentiates between “idiosyncratic” risks that affect individuals or households and “covariant” risks that affect groups of households, communities, regions or nations. Within each of these two broad categories one can further identify types of risk including natural or environmental risks (eg earthquakes, floods, droughts, pollution), health risks, social risks (eg crime, civil strife or war) and economic risks (eg harvest failure, unemployment or commodity price changes).

Although the poor have developed many mechanisms for dealing with risks, their minimal assets, low income and lack of power mean they cannot always cope with crises. Poor people are especially vulnerable to fluctuations in income, and are often unable to recover losses. For people who are close to (but not yet below) the poverty line, a drop in income may be enough to send them into extreme poverty.

Vulnerability also affects nations. Small countries – particularly small island developing states (“SIDS”) – are more vulnerable than larger countries. Small economies lack diversity in terms of productive sectors. This makes them especially vulnerable to external economic shocks and increases the risks to them of other shocks such as crop diseases. High transport costs arising from their remoteness from major markets increase significantly the costs to them of imported goods. Evidence suggests that people and governments in small states lack access to external capital on commercial terms, and average incomes can be artificially raised by relatively small numbers of wealthy residents. Residents of small states have higher volatility in their incomes – the standard deviation of annual real per capita growth in small states is about 25 per cent higher than in large states.

Small islands are particularly susceptible to natural disasters and environmental change. Since adverse events such as cyclones in the South Pacific can affect the entire population, risk pooling at the national level is not feasible and the destruction of national infrastructure and productive capacity can be extreme. Furthermore, small countries may lack adequate capacity in their public or private sectors to cope with challenges of major shocks. This is part of a broader challenge for small countries: they do not have access to a large pool of people to encompass the range of technical, administrative and managerial skills a modern state requires.

The United Nations recognises the special challenges faced by SIDS. Although large strides have been made towards improving human development in the Pacific and elsewhere, more progress could have been made had these islands and populations not faced so many challenges associated with their locational and size vulnerabilities. Despite their relatively satisfactory levels of human development and GNP per capita, SIDS’ vulnerability means they deserve greater levels of assistance than other countries with otherwise similar development status. To this end, the UN and others are continuing work on including measures of vulnerability in their criteria for determining development assistance needs.

Analysing poverty

The critical component for the poverty framework is that actions are based on a thorough poverty analysis. There is no point in focusing on poverty if there is not an understanding of the poor: who they are, where they are located, and why are they poor. This analysis must go further, however, and include an assessment of the most effective aid assistance given the nature of poverty in the location being assisted. This must be based on an understanding of the types of action that can be effective in reducing poverty (the four pillars of the poverty strategy) and the priority for these actions given the poverty situation, partner government programs, resource constraints and the actions of other donors. A poverty analysis must clearly reflect the fact that complex choices are required. As in most public choices, there will be complex choices about how best to proceed as there will be potential winners and losers from each intervention.

Poverty analysis will be conducted as part of the preparation of all program strategy policies. They will also be undertaken as appropriate to inform sectoral strategies, area strategies and activities. Wherever possible, this poverty analysis should be undertaken with Australia's aid program partners. The Government and social institutions of developing countries have the ultimate responsibility for reducing poverty. Sustainable actions with the greatest long-term impact will usually be based on working within the framework and institutions of partner governments. It is also critical that Australia works with other donors to avoid duplication. This more integrated approach to analysis and programming is reflected in work such as the Poverty Reduction Strategy Papers being prepared for many developing countries. Where available, these co-ordinated programs should guide Australian aid activities.

Sectoral implications

The aid program's poverty framework will be integrated into future key policy documents, including sectoral policies. These sectoral and cross-sectoral policies will be based on analysing how sectoral interventions can best assist the poor. The linkages between poverty, and the five priority sectors of Australia's aid program – governance, education, health, infrastructure and rural development – as well as the two cross-sectoral priorities – environment and gender – are outlined below.

Australia is assisting the development of **good governance** in our partner countries. The key elements of good governance – improvement of economic and financial management, strengthened law and justice, increased public sector effectiveness, and development of civil society – contribute directly to each of the pillars of the poverty framework.

Australia's **education sector activities** are helping build human capital in developing countries. Australian aid places an emphasis on education for women and girls, recognising the importance of gender equity in access to education. Education will enable the poor to contribute to and share in the benefits of economic growth.

Access to **health** care, good nutrition, clean water and adequate sanitation are essential investments in reducing poverty and improving economic growth. The poor in developing countries suffer disproportionately from health-related problems. Australian assistance for basic health, health infrastructure, family planning and HIV/AIDS is directly targeting the health needs of the poor people in partner countries who most need health assistance.

The **rural development strategy** recognises that the majority of the poor people in our region live in rural areas. The aid program is focusing on opportunities for the rural poor to generate income and improve their livelihoods. The **food security strategy** recognises that poverty and lack of access to food are deeply intertwined, and is helping improve the poor's physical and economic access to food.

Essential **infrastructure**, such as water supply and sanitation, transport and communications, is fundamental to poverty reduction as it contributes to a higher quality of life and promotes economic activity and increased incomes.

Through the **gender and development** policy, Australia's aid program recognises that improving development outcomes for women is essential for sustainable poverty reduction. Women in developing countries are generally less educated, less healthy, and subject to more violence and human rights abuses than men. Gender activities recognise the considerable development needs faced by women in developing countries. Because women play critical social and economic roles, gender activities that invest in women will also result in greater and more sustainable economic growth.

Australia recognises the strong linkages between **poverty and the environment**. Poor people often live in areas with limited natural resources or where the environment is already badly degraded. The health of the poor is affected by pollution and unsanitary living conditions, and their livelihoods are affected by deforestation, soil erosion and environmental degradation. But the poor do not have the resources to protect their environment, as they have to exploit it to survive. The Australian aid program's environmental activities recognise the links between environment and poverty, and the role that environmental sustainability will play in truly long-lasting poverty reduction.

Indirect poverty reduction in a sectoral context: the PNG Health Program

A critical factor in reducing poverty is a strong policy commitment to poverty reduction by the Government, which is supported by donors. Sector-wide approaches, a new form of sector and expenditure framework for aid delivery, can provide predictable and timely funding to support Government policy and provide better service delivery for the population, including the poor.

AusAID is the lead donor in a sector-wide approach in Papua New Guinea (PNG) supporting health sector reforms being led by the National Department of Health of PNG. Initiatives being undertaken through PNG's Health Sector Improvement Program (HSIP) that will benefit the poor are:

- All PNG Government, donor, NGO and private funding for rural health services will be coordinated through provincial and local level government planning. This will help ensure PNG priorities direct expenditure and that funding is available for both development and recurrent budgets in an integrated way. Improvements to rural health facilities and the capacity of the rural health service to deliver services are the highest priorities under PNG's National Health Plan.
- The sector-wide approach provides a robust context for assessing improvements in the health sector including the effectiveness of donor assistance in building capacity. Benchmarks, agreed under the Treaty on Development Cooperation, and performance targets set by PNG under its Performance Monitoring Framework are the agreed basis for performance assessment. Increased direct disbursement of funds through PNG systems will be dependent upon targets being reached against 19 key health indicators. These include measures of short run improvement (e.g. the number of rural health posts opened and the number of children vaccinated) through to long run measures (e.g. changes in the infant mortality rate). The demography of PNG is such that improvements in these indicators can only come about as a result of the provision of better health services to the poor.

Poverty principles for action

Experience suggests several principles can increase the effectiveness of poverty interventions. These are:

- articulation of poverty linkages
- partnership and ownership
- informed decision-making, and
- appropriate risk management and timeframes.

These principles reinforce the translation of poverty analysis into practical outcomes.

Clear articulation of linkages between activities and poverty

Articulating the links between a given intervention and its impact on poverty is a central requirement in Australia's aid program. The poverty analysis – at program, sector or activity level – will provide the rationale for why the chosen activities are the most effective means to address poverty, in the context of partner government policies and the actions of other donors. It is important that this underlying rationale is articulated and documented so that it is not lost as the program or activity proceeds. Surveys of donor evaluations indicate that the vast majority of activities do not draw out these linkages. The process of articulating these linkages is potentially also a useful tool for highlighting assumptions as to why an activity will impact on poverty. Examining previously hidden assumptions may suggest better ways of reducing poverty in a particular district or for a particular group.

The choice between direct and indirect activities, and the nature of those activities, should be based on a poverty analysis. “Direct” impact activities are specifically targeted at a clearly defined poor beneficiary. “Indirect” impact activities operate at sectoral or national/state levels and include governance, policy dialogue and institution building activities. Indirect activities can also cover activities that help create further opportunities for the poor, such as well-designed and located infrastructure activities. An activity may work at both direct and indirect levels to address a poverty issue.

Experience indicates that indirect activities often have the greatest medium to long-term impact on poverty reduction. In its *Poverty Report 2000: Overcoming Human Poverty*, the United Nations Development Programme suggests it is too narrow an approach to focus only on directly poverty-targeted interventions. The report argues that macroeconomic and governance policies have at least as much impact – and moreover better address the root causes of poverty. There is little point in undertaking direct impact activities if the larger policy settings or underlying institutions make the activities unsustainable or effectively channel benefits primarily to the better-off in society.

For direct activities, poverty issues may be explicitly built into project objectives, and appropriate monitoring arrangements set up to review the validity of the linkages. For indirect activities, such as governance activities, the linkage will be less direct, although the overall impacts on poverty may be greater.

Partnership and ownership

Effective partnerships are essential for effective poverty activities, especially those based on improving governance. The partner government's own policy settings, institutional frameworks, expenditure patterns and manner of working with other donors are all crucial factors in determining how poverty reduction activities should be implemented. Effective partnerships and a sound policy environment are key to rapid growth and poverty reduction. By capitalising on the strong partnerships it has already built up with developing countries in the Asia-Pacific region, Australia can ensure that its governance activities most effectively address poverty.

Partnership goes beyond dialogue with partner governments. It should also involve the participation of local government, the private sector, civil society, and the poor. Participation fosters increased accountability, transparency and efficiency of governance structures in partner countries. It enables us to do something together with the poor rather than just something for the poor. Participation is a particularly important component of direct poverty-focused activities, although it must be adapted to the particular circumstances of each activity. Current participatory methods need to ensure that the poor are included. Participation by the poor can reinforce work to identify the key interventions to reduce poverty, and involvement during implementation of activities can improve monitoring arrangements and sustainability. But participation needs to be carefully managed so that it does not create unrealistic expectations and overburden communities with obligations to actively participate in the development process.

Partnership with partner governments and involvement of civil society and local community groups can build the critical element of ownership of development programs. Development history clearly demonstrates that a sense of local ownership greatly increases the chances of doing the right things, doing them well, and sustaining activities after aid funding concludes.

Informed aid interventions based on quality data

Aid interventions should be informed by good data, both at the strategic and operational levels. Good data greatly assists analysis of poverty. Direct poverty interventions, for example, can be informed by household survey data on income, employment, consumption patterns, and access to health and education services. New management methods are being devised for accountability and vulnerability issues. Sectoral interventions can be informed by data on distribution, trends and levels of sectoral expenditure.

Ideally, data should be reliable, and of high quality. However, collecting reliable data can be difficult and expensive, and good data will probably not be available for all activities. Data should be collected from a variety of sources, and using a variety of collection methods. Australia should not do this alone, but should work, where possible, with partner countries, other donors and multilaterals. Where partner countries lack capacity to obtain good data, Australia should consider working with those countries to improve their data-gathering capacity.

Data will also be useful for monitoring and measuring the impacts of aid activities on poverty reduction. The “lessons learned” from such data will enable better planning of future aid activities. However, measuring the impacts of aid activities on poverty can be difficult. Even if it can be shown that poverty has been reduced, it may not always be easy to draw conclusive causative links between the aid activity and the poverty impacts.

Timeframes and risk management

Poverty reduction outcomes accrue largely in the medium to long-term. Donors may need to think of activities less as discrete interventions in themselves, but as phases in a longer-term – perhaps 20 year – program. At the same time, accountability requirements for use of Australian aid will require good monitoring of progress within a satisfactory period.

Poverty-oriented activities can be resource intensive and slow. The poor face particular barriers to effective participation in activities, such as lack of assets and resources, illiteracy, poor health, remoteness and cultural barriers. Contributing factors to poverty might also be long-standing social institutions and norms that are difficult to change.

Consideration must always be given to the most effective form of providing assistance. This may be through traditional project activities that directly target the poor, through to broader capacity building programs that are increasingly designed to be responsive to changing requirements. In building on the principles of partnership and ownership, consideration is being given to newer forms of assistance, such as sector-wide approaches, that can complement more traditional approaches while allowing aid to have a greater impact on improving overall policy settings and allocation of resources for poverty reduction.

Potential longer timeframes and additional challenges can make direct poverty-oriented activities more risky than many other types of activity. This increased risk must be appropriately managed when planning, designing and contracting poverty activities. Risk management of poverty activities may require increased management resources as well as acceptance of longer timeframes than has traditionally been the case.

Future steps

Implementing the poverty reduction framework will require work in the following areas:

Program strategies

Program strategies are central to Australia's aid program and it is therefore crucial they focus on operationalising poverty reduction. The existing guidelines for program strategy preparation are being improved so that poverty is a more central element of country strategies. The guidelines will also provide advice on undertaking a poverty analysis. Wherever possible, this poverty analysis will draw upon work done by partners or other donors.

Planning and design

Planning and design action are critical for ensuring quality activities that appropriately focus on poverty issues. At the feasibility stage, the proposed project should be assessed in terms of its potential contribution to poverty reduction and answering the question "Is this the best way to tackle the specific poverty problem?" At the design stage, activities should articulate the links between the project's objectives and poverty reduction, including who the beneficiaries are and whether impacts are likely to be direct or indirect. Activity designs should specifically detail the activities of the partner government and other donors with regard to poverty reduction; undertake appropriate consultations with identified target groups; and determine the data requirements needed to allow definition of the poverty problem and ways of measuring any changes in it.

At an operational level, parts of the planning, design and implementation are contracted out. Contracts are the critical and binding arrangements through which managing contractors implement Australia's aid program. Contracts are being revised to reflect and address poverty objectives, particularly at the project feasibility and design phase.

Documentation

To mainstream a stronger poverty reduction focus, its profile will be raised in key corporate management processes, such as programming, decision-making and performance information. This will help ensure that the links between decisions and the poverty reduction objective are clearly articulated.

AusGUIDE (the aid program's operational manual) is being revised so that it more strongly focuses on poverty. AusAID's Corporate Plan 2001-2003 more explicitly describes the links between poverty and our corporate objectives. Future sectoral policy documents will be written so they incorporate a stronger poverty reduction focus. Guidelines for project approvals should comment on the likely contribution to poverty reduction.

Skills access and training

To implement the poverty reduction framework, staff will need to further develop their understanding of poverty issues. Staff will be trained so that they are better able to recognise and assess proposals on the basis of their poverty reduction impacts, assess contractors' work on poverty, and communicate poverty implementation needs to contractors in the field. Greater discussion and debate on poverty issues within the organisation will be encouraged. NGOs and contractors who work closely with the aid program will be kept informed about issues relating to the program's ongoing poverty focus.

Publications

The poverty reduction framework is an important policy document that will need to be effectively communicated to internal and external stakeholders and the broader development community. The poverty policy paper is available on the Internet at www.usaid.gov.

Indirect poverty reduction: Technical Assistance Management Facility (Indonesia)

In 1998, in light of the financial crisis in Indonesia and consequent rapid increases in poverty, the Government of Australia committed major support to a crisis relief program in Indonesia, including a \$70 million package of development cooperation in economic and financial management over three years. The Technical Assistance Management Facility (TAMF), established in April 1999, formed part of this commitment and is proving very successful. The project is designed to be flexible, timely and responsive in the current dynamic Indonesian environment.

Phase I of TAMF, with a budget of \$8.5 million over two years is supporting key Indonesian Government agencies to develop policies and implement programs that contribute to economic recovery and poverty alleviation. Positive independent evaluations of Phase I have resulted in an extension of the project. Phase II, due to commence in June 2001, will provide an additional \$8 million over two years.

TAMF provides short-term targeted assistance to key Indonesian Government agencies in support of economic and financial reform that address weaknesses in the macro-economic framework, financial systems and the business sector. Project activities support fiscal decentralisation, transparent and accountable systems within government, and technical capacity building. Reinforcing good policy settings and strengthening key institutions will assist economic reforms to proceed with a degree of certainty that does not currently exist. This in turn is expected to help establish the foundations for a return to continued economic growth, a requirement for poverty reduction.

Reducing Poverty

The central integrating factor of Australia's Aid Program

This Poverty Framework refines current approaches, and better articulates linkages, between Australia's aid program and poverty.

The Poverty Framework addresses a number of critical issues including:

- a definition of poverty
- key strategies for reducing poverty
- the importance of poverty analysis
- principles for future action, and
- next steps.

The Poverty Framework is based on the four pillars of growth, productivity, accountability and vulnerability. These involve:

- strengthening frameworks for sustainable and inclusive economic *growth* that will benefit the poor;
- supporting interventions that enable the poor to increase their *productivity*
- encouraging governments, institutions and donors to be more *accountable* to the poor, and
- reducing the *vulnerability* of the poor.

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