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German Aid Policies for Poverty Reduction

Eva Weidnitzer

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GERMAN AID POLICIES FOR POVERTY REDUCTION

Eva Weidnitzer

June 1997

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Portland House
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Foreword

This paper is one of a series on the experiences of European donors with the use of aid for poverty reduction and is the product of a major research programme involving ten European development research institutes. This programme breaks new ground in its intention to compare and to draw from the collective experience of donors of the European Union and also perhaps in the degree of collaboration involved by European development research centres. Each Institute is funding its own participation, with ODI playing a co-ordinating role. The institutes involved are:

Asociación de Investigación y Especialización sobre Temas Ibero Americanos (AIETI), Madrid;

Centre for Development Research (CDR), Copenhagen;

Centro Studi di Politica Internazionale (CeSPI), Rome;

Deutsches Institut für Entwicklungspolitik/German Development Institute, Berlin;

Développement des Investigations sur l'Adjustement à Long terme (DIAL), Paris;

European Centre for Development Policy Management (ECDPM), Maastricht;

Institute of Development Studies (IDS), Helsinki;

Nordiska Afrikainstitutet/Nordic-Africa Institute, Uppsala;

Overseas Development Institute, London;

Third World Centre, Catholic University of Nijmegen.

The objective of the first stage of this research programme is to describe and assess each donor's goals as they relate to bringing the benefits of aid to poor people, and to review each donor's organisation and management to implement this objective. The ten donor agencies are those of Denmark, the European Commission, Finland, France, Germany, Italy, the Netherlands, Spain, Sweden and the UK. A matrix summarising the comparative donor positions will appear later in this series and will include some observations from the donor studies on the differences and similarities of the various approaches.

The second stage of the research consists of a series of seven in-country studies to examine the operations of the European donors in pursuit of poverty reduction in Bolivia, Burkina Faso, India, Nepal, Tanzania, Zambia and Zimbabwe. An important part of this work will be to evaluate the effectiveness of different types of poverty-related donor interventions. Special attention will be paid to the nature of the processes involved. Collective and comparative experience of poverty reduction effectiveness will be explored, including any 'best practices', and the main determinants of effectiveness will be examined. These studies will be completed during 1997 and will also be published as ODI *Working Papers*.

I am most grateful for the co-operation of each Institute in this endeavour and for the help of all those donor officials and advisers who have responded to enquiries and interviews by the collaborating researchers. I would like to acknowledge the financial support provided by the Department for International Development in the UK which has made possible ODI's contribution to the programme. However, neither they nor any others who have assisted in this programme necessarily agree with the facts presented and the inferences drawn.

John Healey
Overseas Development Institute

Preface

As part of the joint project 'Comparative Study of European Aid for Poverty Reduction' this study gives an overview of the strategy and management of aid for poverty reduction as a priority goal of German development co-operation.

To our regret, we are not in a position to publish figures on country allocations of German development assistance in the field of poverty reduction. The German Federal Ministry for Economic Co-operation and Development (BMZ) does not have the necessary comprehensive criteria that would make it possible to subsume its programmes and projects under the heading of poverty reduction; a study on this question is just under way. Also, BMZ is involved in the activities of a statistics group in the DAC that is seeking to establish internationally standardised and binding criteria. If that group succeeds, we hope we shall receive DAC-accepted criteria for the sectoral and cross-sectoral classification of individual aid activities for poverty reduction projects which will allow us to compare country figures of the different donors involved in the study.

The author of this study would like to thank all interviewees and colleagues who supported the study for their valuable assistance.

Eva Weidnitzer
Berlin, June 1997

Summary

Poverty reduction is a priority goal of German official development assistance.

Since the beginning of the 1980s initial ideas on poverty reduction and its place within the framework of Germany's aid policy have been developed. In 1983, the Federal Ministry for Economic Co-operation and Development (Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung/BMZ) created a special staff panel for poverty reduction to anchor the objectives within the framework of official development aid. From the beginning, the panel developed its ideas in close co-operation and co-ordination with German NGOs who already had considerable experience in this field. In 1990 the work resulted in the first policy paper *Fighting poverty by promoting self-help* (BMZ, 1990), which placed special emphasis on the promotion of participation and self-help as basic principles. Thus, as early as the 1980s, German development co-operation gave priority to *participation, self-help and self-help organisations* as key elements of aid for poverty reduction. This development also received some impetus from international discussions, especially from the World Bank's *World Development Report* published in 1990. In the early 1990s, further important steps were taken to strengthen the orientation of aid towards poverty reduction, among them the creation of a special administrative division within BMZ and the development of a second policy paper on poverty reduction.

Poverty in developing countries and German aid for poverty reduction were also intensively discussed in Parliament – the Deutscher Bundestag. Twice, in 1991 and 1995, BMZ and about 20 German organisations reported on the progress of self-help-oriented poverty reduction in the Third World to the Parliamentary Committee for Economic Co-operation and Development.

Nevertheless, the orientation of development co-operation towards poverty reduction as a central task has met with controversy. Criticism comes especially from those advocating development co-operation with more emphasis on private sector development (at the same time strengthening Germany's export interests). So far, the concept of poverty reduction has been defended against all efforts to change its priority position among the objectives of aid. The new *Conception of development policy of BMZ* (published in October 1996) has again confirmed poverty reduction as a priority goal.

Today, German development policy for poverty reduction is based on five policy papers which form the framework for the poverty reduction measures. Two papers, *Fighting poverty by promoting self-help*. *Self-help movements as partners in development co-operation* (BMZ 1990) and *The main elements of poverty reduction*

(BMZ 1992b), are explicitly directed towards the field of poverty reduction. The first emphasises the central role of *self-help* in the fight against poverty. It defines criteria for self-help-oriented projects as follows: (i) target groups should be people below the poverty line, with particular focus on women; (ii) initiatives which the project is to make use of, must exist already; (iii) participation must be ensured; (iv) the target group must make its own contribution; (v) freedom of action must be guaranteed; and (vi) projects must aim at broad impact.

The lessons learnt during the implementation of the concept nevertheless showed that the self-help approach could achieve only limited results unless there was a supportive policy environment. For this reason, aid for poverty reduction had to put more emphasis on the role and influence of framework conditions in developing countries and in international relations. This modified approach is reflected in the policy paper on the main elements of poverty reduction, which distinguishes three forms of poverty reduction:

- *structural reforms* to remove the causes (not just the manifestations) of poverty are the main approach under poverty reduction. Structural reforms mean the creation of an economic, political and social climate conducive to the reduction of poverty at both international and national levels (by the removal of protectionism, safeguarding of fair trade, solution of the debt crisis, democratic reforms, creation of the necessary scope for independent private activities, agricultural reforms, etc.);
- *direct poverty reduction* by promoting projects and programmes with mainly (more than 50%) poor people as the target group; and
- *indirect poverty reduction* that contributes to the recipient country's macroeconomic or sectoral policies which enlarge the scope for activities of the poor and for redistribution in their favour.

'People are poor', according to the concept, 'if they do not have the minimum monetary or non-monetary income necessary to meet their food requirements and satisfy their other basic needs. The social, economic, cultural, political and ecological causes of poverty are inextricably interlinked in this context' (BMZ, 1992b). The concept of the nature of poverty demonstrates that income figures do not sufficiently characterise the nature of poverty. Poverty does not only mean malnutrition, low life expectancy, etc., it also means exclusion of the poor from decision-making and limited opportunity to take care of one's own life. To reduce poverty, therefore, requires measures to raise living standards *and* to improve the possibilities for the poor to participate in social and political life.

BMZ and the implementing agencies (GTZ for technical co-operation and KfW for financial co-operation) initiated special measures to anchor the poverty reduction goal in their administrative structures and to train their staff members.

Besides the Ministry and the official implementing agencies, many non-governmental organisations are traditionally engaged in the field of assistance for poverty reduction. To co-ordinate the activities of the various governmental and non-governmental organisations in this field a 'working group on poverty reduction by promoting help for self-help' has been established. It represents a forum where the organisations and institutions involved can exchange experiences and is active in sensitising the public and other organisations to the fight against poverty.

In order to implement the poverty reduction goal, BMZ seeks to translate basic guidelines on poverty and self-help into country aid programming. Poverty reduction should play a prominent role in country strategy papers, which are elaborated only for countries which are significant recipients of German aid. These country strategy papers are one of the most important instruments of German development co-operation. It is common practice today that all country strategy papers refer to the poverty reduction objective. Poverty reduction has been made a central point in the BMZ sector as well as cross-sector policy papers. Each sector paper must refer to the relevance of and the possibilities for poverty reduction in its context, taking into account the nature of poverty reduction as a cross-cutting task which is to be implemented in all sectors and fields of assistance.

Nevertheless, German experience shows that there are some sectors and types of projects especially conducive to poverty reduction: financial services, credit and saving, rural development, small enterprise development, food security, informal sector development, housing, erosion control, water supply and sanitation, irrigation and basic education. So far, the majority of poverty-reducing projects have been implemented in the field of direct poverty reduction and self-help-oriented poverty reduction, particularly in the sectors of agriculture (small-scale farming), forestry and fisheries, health, social infrastructure (water supply, housing), financial services and education.

With regard to methods and instruments, German aid for poverty reduction rests on three basic principles: (i) priority for structural reforms, (ii) self-help and participation and (iii) promotion of the productive and creative capabilities of the poor. In recent years BMZ has revised its instruments and procedures and developed new ones to meet the demand for poverty reduction. The most important instruments to facilitate poverty reduction effects are the following: country strategy papers, special country studies to assess the poverty situation, participation of the target group and self-help revolving funds. Participation is – according to the German approach – the key method with regard to poverty reduction. The Ministry is promoting the application

of participatory methods such as Participatory Rural Appraisal and Exposure – and Dialogue – Programmes.

Determining the share of poverty-oriented projects in German development co-operation is a difficult task because clear statistical criteria to classify poverty-oriented projects do not yet exist. Consequently, BMZ does not have comprehensive statistics on poverty reduction measures. BMZ strongly supports all efforts to find common criteria for poverty reduction measures within the group of DAC members. So far, BMZ has used the portfolio of self-help-oriented and basic needs projects to assess and demonstrate its efforts in the field; this reflects only a part of overall poverty reduction activities, however.

In 1996, self-help-oriented projects for poverty reduction reached their highest level with a volume of 700 million DM, representing 18.6% of total development funds. A quarter of official flows were allocated to least developed countries (LLDC), while the share of poor countries in general amounted to 65%. Projects in technical as well as financial co-operation were concentrated in Africa, followed by Asian and Latin American countries.

Since the early 1990s, when the fundamental conceptual approach was laid down, special emphasis has been placed on implementing the conceptual guidelines. In the field of poverty reduction, development co-operation faces several problems relating to conceptualisation, to problems of acceptance and the fact that the multitude of policy papers creates some difficulties for operationalisation. Furthermore, there are problems concerning the role of 'participation'. In recipient countries development co-operation is often confronted with political structures which do not facilitate or support participatory initiatives on the part of the population. The key role of participatory approaches in the policy papers also met with problems in relation to project planning and instruments used by the donor country. Thus, the traditional project-oriented thinking partly ran counter to a broader participation of the population in the partner countries. Participation of the poor as a target group in the process of planning and implementation also presupposes willingness on the German side to yield some of its 'power' in accordance with the principle that donors should interfere as little as possible. The 20:20 initiative on universal access to basic social services is fully supported by BMZ. However, the Ministry considers that much remains to be done in order to put it into operation and realign it to its own poverty reduction participatory approaches.

Although German development co-operation has made remarkable progress in the conceptualisation of poverty reduction as a primary task, there is still an obvious gap between the conceptual claim and implementation of the concept in practice. Actual results achieved in the field of poverty reduction deviate from the priority attached to the poverty reduction objective in German development co-operation. Reflecting

the problems of decreasing development budgets and the debate on development co-operation priorities, which has been growing in this context, the budgetary allocation for 1997 shows a decline in the funds for self-help-oriented poverty reduction, which amount to some 500 million DM, 14.2% of total development funds. Even taking into account that the overall budget for development co-operation is declining, there is the question of a growing contradiction between the stated priority and the actual allocation of funds. Some representatives of the German development community are, therefore, concerned that these developments are an early sign of a redefinition of objectives.

However, development co-operation for poverty reduction has achieved some positive results. What matters now is to concretise the overall concept, to develop clear criteria for classification, to define appropriate instruments and to give poverty reduction in practice the priority stated in the policy papers.

Acronyms and abbreviations

AKA	Arbeitskreis Armutsbekämpfung durch Hilfe zur Selbsthilfe/Working group on poverty reduction by promoting help for self-help
AwZ	Ausschuß für wirtschaftliche Zusammenarbeit/Parliamentary Committee for Economic Co-operation and Development
BMZ	Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung/Federal Ministry for Economic Co-operation and Development
DAC	Development Assistance Committee (of the OECD)
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
HDI	Human Development Index
KfW	Kreditanstalt für Wiederaufbau
LLDC	Least Developed Countries
NGO	Non-Governmental Organisation
NICs	Newly Industrialising Countries
oda	official development assistance
OECD	Organisation for Economic Co-operation and Development
UNDP	United Nations Development Programme
ZOPP	Ziel-orientierte Projektplanung/Objective-oriented Project Planning

1. Historical background and development of the poverty reduction concept

In the 1950s and 1960s 'development' was largely considered to be synonymous with 'economic growth': any increase in the gross national product resulting from overall economic growth was supposed automatically to have a positive impact on the situation of the poor. Development showed that, in fact, economic growth in developing countries is a precondition for a successful fight against poverty, but that this struggle can be won only if growth is accompanied by a policy which positively includes the poor. In other words, economic growth is a necessary but not sufficient condition for successfully combating poverty. What is needed is a policy which is explicitly oriented towards improving the living conditions of the poor.

First ideas in this direction were developed in the 1970s. They were reflected in new strategic approaches: a distribution-oriented growth strategy which was to redirect investments to the poor, together with a strategy to satisfy basic needs and to improve the living conditions of the poor. The 1980s were characterised by international debate about the increasing indebtedness of the developing countries, their insolvency and the adjustment of their economic structures. These developments were accompanied by problems of growing poverty and increasing numbers of poor people, especially in Third World countries.

As early as 1983, the German Ministry for Economic Co-operation and Development (*Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung/BMZ*) created a special staff panel for poverty reduction (called *Sondereinheit 31/SE 31*), the basic idea being to anchor poverty reduction within the framework of official development aid. Up to this time poverty reduction had been considered an inherent task of non-governmental organisations (NGOs), while the official development agencies were to secure the framework conditions for their work. Consequently, a new area of activity opened up to governmental aid institutions. From the beginning, the BMZ staff panel developed its ideas in close co-operation and co-ordination with German NGOs which already had considerable experience in this field. The concept of poverty reduction within the framework of official German development assistance was thus not the result of an administrative act. Rather, it developed in a process of discussion and exchange of experience with the relevant actors in the German aid community.

The panel was commissioned to examine the possible contributions of German development co-operation to increasing the economic capabilities of the poor and improving their living conditions. The question also included the revision of existing

aid instruments and their adjustment to poverty reduction and the promotion of self-help.

The lessons learnt from the activities of poverty reduction projects revealed that the assistance was far from effective and generally disappointing. In this situation the members of the BMZ panel decided to look to the developing countries themselves and to learn from the poor. On this basis, the panel developed ideas for broader participation from the poor as a key element in realising the basic concept of giving 'help for self-help'.

In 1990 the panel's work resulted in the policy paper *Fighting Poverty by Promoting Self-help. Self-help movements as partners in development co-operation* (BMZ, 1990). The paper included the experience gained in developing countries and placed special emphasis on the promotion of participation and self-help as basic principles of a poverty-oriented development strategy. Thus, since the 1980s German development co-operation has given priority to *participation, self-help* and *self-help organisations* as key elements of development policy oriented towards poverty reduction. In so doing it highlighted elements which later became central terms in the international discussion of poverty-reducing development assistance.

The World Bank's *World Development Report* of 1990 provided a new impetus. The report highlighted the need to devote more attention to the situation of the poor and to the fight against poverty. It emphasised:

that rapid and politically sustainable progress on poverty has been achieved by pursuing a strategy that has two equally important elements. The first element is to promote the productive use of the poor's most abundant asset – labour. It calls for policies that harness market incentives, social and political institutions, infrastructure, and technology to that end. The second is to provide basic social services to the poor. Primary health care, family planning, nutrition, and primary education are especially important. (World Bank, 1990: 3)

The importance which the World Bank attached to the issues of poverty reduction and human development confirmed the German development officials in their attempts to reinforce poverty reduction as a central goal of development assistance.

In 1991 the BMZ replaced the staff panel with a separate administrative division to deal with the tasks of poverty reduction. In 1992 a further important step was taken to strengthen the orientation of German aid policy towards poverty reduction. That year the concept paper *Main Elements of Poverty Reduction* (BMZ, 1992b) was published, which emphasised poverty reduction as a cross-cutting task of Germany's development co-operation. Besides the development of conceptual ideas, implementation of the overall political guidelines governing German development assistance became the main task of the Poverty Division in the BMZ: namely, to give

poverty reduction the priority which had been stated in the policy papers, to interlink all BMZ activities with the goal of poverty reduction, to give the Ministry's Country Divisions recommendations on how to involve the poverty reduction goal in their strategic decisions and their daily activities, and to develop procedures, instruments and project designs in accordance with the poverty reduction objective.

Poverty in developing countries and the orientation of German development policy towards poverty reduction as a main task were also discussed intensively in Parliament (*Deutscher Bundestag*) which took decisions in 1990 and 1993 concerning poverty reduction in developing countries. The Parliamentary Committee for Economic Co-operation and Development (*Ausschuß für wirtschaftliche Zusammenarbeit und Entwicklung/AwZ*) arranged several hearings with experts on poverty reduction through self-help. Twice, in 1991 and 1995, the BMZ and other German organisations (19 in 1991 and 22 in 1995) reported to the Committee on the progress of self-help-oriented poverty reduction in the Third World. Two reports on the subject have been published. The second, produced in 1995, reported mainly positive results in self-help-oriented poverty reduction in the period 1991–4 (BMZ, 1995b: 3).

- all major aid organisations in Germany have continued and intensified their efforts in the field of self-help-oriented poverty reduction;
- all reporting organisations have strengthened their activities in this field;
- all the organisations involved reported progress in international discussion and practice;
- all reported a growing acceptance of the goal of poverty reduction on the part of governments in developing countries.

Nevertheless, the orientation of German development co-operation towards poverty reduction as a central task has met with controversial discussion. In December 1994, the Advisory Council for Development Co-operation (*Wissenschaftlicher Beirat beim BMZ*) published a statement on 'New Accents in German Development Co-operation during the next Legislative Period', pointing out the necessity of pursuing a dual development strategy during the next period. On the one hand, new forms of co-operation were needed for newly industrialising countries and for special sectors and regions in middle-income countries. On the other hand, development co-operation was faced with conceptual and instrumental problems in low-income countries and in the poor segments of middle-income countries. The elevation of poverty reduction as a central cross-cutting task of German development co-operation is seen first of all as a political question, namely, how to win broad public support for development co-operation in Germany. But it is clearly beyond the possibilities of development co-operation effectively to remove the poverty of billions of people. Therefore, according to the document, one of the most urgent changes in German aid policy must be to relinquish unrealistic claims and to return to the promotion of 'development'

with more emphasis on private sector development. Thus, the public image of the BMZ as the sole agency competent to deal with the problems of poor countries needs to be changed.

So far, the concept of poverty reduction has been defended against the fundamental criticisms of those advocating a more 'realistic' approach (putting more emphasis on Germany's export interests). The new *Conception of Development Policy of the BMZ* which was published in October 1996 has again confirmed that poverty reduction is a priority goal.

However, a debate is going on in Germany (and has been growing recently) about the fundamental goals and concepts of development co-operation. Criticism of the poverty reduction guidelines comes from two sides. On the one hand, the debate on goals and objectives is related to discussion of Germany's position as a location for investments (*Wirtschaftsstandort Deutschland*) and its budgetary constraints, which give rise to increasing pressure to economise and to confront development policy with decreasing budgetary funds. Those who advocate a new orientation of aid policy demand that more emphasis be placed on private sector development and that greater importance be attached to German economic interests in the light of this situation. German NGOs are therefore concerned that BMZ's overall poverty reduction goal could be replaced in the near future by a strategy more influenced by Germany's own economic interests.

On the other hand, there are also controversial debates within the German NGO community about the poverty reduction strategy. Although NGOs support the orientation of development assistance towards poverty reduction, they also discuss the role that self-help-oriented poverty reduction should play within the framework of official development co-operation. Some NGO representatives demand a clearer division of tasks between official development co-operation and NGOs, arguing that official assistance should concentrate on structural reforms and indirect poverty reduction measures while NGOs focus their activities on direct poverty-reducing measures and self-help-oriented poverty reduction.

Consequently, it is difficult at present to gauge how realistic the concept of assistance for poverty reduction within official German development co-operation is and hence whether poverty reduction as a priority goal can be defended in the long run against other interests. Although it is common knowledge that it is necessary to distinguish between concept and reality, the current economic situation and the limited results achieved so far in poverty reduction render the implementation of the poverty reduction strategy more difficult for the German development community.

2. Conceptualisation

2.1 Main concepts of poverty reduction

Since the beginning of the 1990s the German Government has focused its development co-operation policy on poverty reduction, which has been given priority among the existing three primary areas of poverty reduction, environmental protection and the promotion of education. Today, German development policy for poverty reduction is based on the following five policy/concept papers:

- *Fighting Poverty by Promoting Self-help. Self-help movements as partners in development co-operation* (BMZ, 1990);
- *The Main Elements of Poverty Reduction* (BMZ, 1992b);
- *Cross-sectoral Concept on Target Groups. Development co-operation: the players* (BMZ, 1994);
- *Socio-cultural Criteria for Projects under Development Co-operation. Frame-concept* (BMZ, 1992a);
- *Concept on the Promotion of Women in Developing Countries* (BMZ, 1988).

The first two papers are explicitly directed toward poverty reduction and thus reflect the main elements of the German philosophy of aid concerning poverty reduction. The cross-sectoral paper, *Fighting Poverty by Promoting Self-help*, aims to make a contribution to

- creating framework conditions in the countries of the South and in development co-operation that favour disadvantaged population groups and their involvement in the development process;
- ensuring that German aid makes better provision for the initiative of these population groups;
- achieving a sustainable improvement in the living conditions of poorer sections of the population.

The *central point* of the concept is to promote self-help. Self-help means to endeavour to achieve objectives by one's own efforts. According to the concept, it is a response to situations of real distress and hardship or situations that are subjectively perceived to be unsatisfactory, which people try to change by their own efforts, either individually or in solidarity groups, with the aim of achieving a sustainable improvement in their living conditions and their own self-reliance. In order to achieve a sustainable reduction of poverty, the instruments of development co-operation must support self-help initiatives by the poor, strengthen the self-reliance of self-help

organisations and seek to bring about changes in the social structures responsible for poverty.

The implementation instructions define the following criteria for self-help-oriented projects:

- Target groups are people living below the poverty line; the particular focus should be on women.
- Initiatives must already exist; projects should build on these.
- Participation must be ensured. The population concerned must be given responsibility for the project and the project design must ensure participation of the beneficiaries at all stages.
- The target group must make its own contribution. The project should reinforce existing initiatives, encourage the target group to make efforts of its own and strengthen its willingness and ability to assume responsibility. The beneficiaries' contribution is a precondition for assistance.
- Freedom of action must be guaranteed. Government institutions must be willing to guarantee the necessary freedom of action for the participation of local self-help organisations in the project.
- The project should be designed to achieve broad impact and sustainability, and hence to increase the economic and social self-reliance of the beneficiaries. It must, therefore, take into consideration the social and cultural context.

The concept paper *Fighting Poverty by Promoting Self-help* was published in 1990. The lessons learned during its implementation nevertheless revealed that the self-help approach could achieve only limited results unless the framework conditions created the necessary climate. People can help themselves only if the social, judicial, political and economic conditions are conducive to such activities. For this reason, the German conceptual basis for poverty reduction had to put more emphasis on the role and influence of framework conditions in the developing countries and in international relations. Fighting poverty requires an effective change in the political and economic structures and framework conditions in favour of the poor, as well as concrete measures to improve their living conditions. This means that German development co-operation should be active at two levels:

- the policy level: *structural reforms* in the field of international economic relations and improvements in internal framework conditions in developing countries are necessary to reduce poverty;
- the project level: concrete development activities have to be directed to improving the living conditions of the poor.

This modified approach is reflected in the 1992 policy paper, *The Main Elements of Poverty Reduction*. This paper provides the following definition of poverty:

People are poor if they do not have the minimum monetary or non-monetary income necessary to meet their food requirements and satisfy their other basic needs. The social, economic, cultural, political and ecological causes of poverty are inextricably interlinked in this context (BMZ, 1992b).

The aim of poverty reduction is to promote the productive capabilities of the poor and enable them to satisfy their needs better through their own economic activity. It is not, therefore, to be associated with a term such as 'charity'.

The concept distinguishes between *three forms of poverty reduction*:

- *Structural reforms*. This is the main approach under poverty reduction, since it means that the causes and not just the outward manifestations of poverty should be removed. To this end an economic, political and social climate conducive to the reduction of poverty is to be created at both international and national levels. At the international level the key elements are the removal of protectionism, the safeguarding of fair trade and the resolution of the debt crisis. At the national level structural reforms which will benefit the poor are needed: democratic structures, scope for independent private activities, agricultural reforms and decentralisation. The means available under development policy to accomplish all this include policy dialogue, policy advice and support for the structural reform of government and economic and administrative systems.
- *Direct poverty reduction*, i.e. projects where the target groups are mainly poor people, at least 60% of whom are usually women.
- *Indirect poverty reduction*. This comprises all projects that contribute to macroeconomic or sectoral policies of the recipient country which enlarge the scope for activities of the poor and for redistribution in their favour.

Table 1 sets out a matrix of these approaches, with examples. Poverty reduction is defined as a cross-cutting task, which means that, in principle, poverty can be fought through development projects in *all areas*. The concept emphasises that all BMZ activities should be seen in the context of poverty reduction and that efforts should be geared towards this. Such an approach includes a revision of existing promotion measures, procedures and instruments.

Today, *The Main Elements of Poverty Reduction* paper remains the comprehensive conceptual approach of German development assistance to poverty reduction, giving details on the aims, forms and areas of promotion, whereas the 1990 paper *Fighting Poverty by Promoting Self-help* deals with one specific method of direct poverty reduction. Thus, the understanding of poverty reduction has been widened in the process of conceptualisation.

Table 1

Summary of BMZ policy paper: the main elements of poverty reduction

<i>Categories/Approach</i>	<i>Aims</i>	<i>Approach/Instruments</i>	<i>Examples</i>	<i>Areas of promotion</i>
1. Structural poverty reduction (primary approach, to remove the causes and not just the outward manifestations of poverty)	<p>Creating an economic, political and social climate conducive to poverty reduction at international and national levels</p> <p><i>International level:</i></p> <ul style="list-style-type: none"> dismantling protectionism securing conditions for fair trade solving the debt crisis <p><i>National level:</i></p> <ul style="list-style-type: none"> democratic structures scope for independent private activities agricultural reforms decentralisation 	<ul style="list-style-type: none"> policy dialogue policy advice support for the structural reform of government, economic and administrative systems 	<ul style="list-style-type: none"> advisors on public spending reforms, social policy, the social dimension in structural adjustment social funds within the framework of structural adjustment securing ownership titles in rural poor regions 	<p>Poverty may be reduced through development policy projects in all areas. Examples:</p> <p><i>Environmental and resource protection</i></p> <ul style="list-style-type: none"> soil and water conservation site-appropriate land use reforestation <p><i>Education</i> (particularly basic education, vocational training)</p> <ul style="list-style-type: none"> employment-oriented basic and further training for target groups in the informal sector informal vocational training in trade and commerce to help with the establishment of livelihoods in the small business sector <p><i>Infrastructure</i> (power stations, roads, dams and irrigation systems provided that they benefit the poor or that they are part of the poverty-oriented policy of the partner country)</p> <ul style="list-style-type: none"> rural feeder roads drinking water supplies and sanitation <p><i>Private sector development</i> (by strengthening the developing countries' own economic power, it can help to reduce the structural causes of poverty)</p> <ul style="list-style-type: none"> small credit systems for the informal sector advisory services for small entrepreneurs
2. Direct poverty reduction	Support of clearly defined poor population groups	<p>Designing development policy projects which have a clearly recognisable circle of beneficiaries consisting mainly of the poor</p> <p>Promoting self-help groups</p>	<ul style="list-style-type: none"> Water supplies and waste water treatment micro dams public works construction of low-cost housing by self-help groups establishment of a rural savings and credit system for poor population groups support for women's self-help groups 	
3. Indirect poverty reduction	Extending the scope for action and distribution in favour of the poor	Embedding projects in a poverty-oriented overall or sectoral policy of the partner-country where the beneficiaries of the project cannot be clearly identified or may not be predominantly poor	Advisory services on improving the tax system and tax administration so that the government uses revenue from taxes for poverty-oriented policies and to reach a fairer system of taxation	

The other three policy papers emphasise different aspects which are to support the central aim of poverty reduction. Thus, the paper on *Target Groups* (BMZ, 1994) identifies the poor in the developing countries as the predominant target group of German aid activities. Since poor women are often at a far greater disadvantage than men, the target group is also subdivided according to gender.

Special aspects of the promotion of women are also adopted in the policy paper *Concept on the Promotion of Women in Developing Countries* (BMZ, 1988). The paper stresses that all projects should take the interests of women into account: women's interests must form part of the planning and execution of all projects; adverse effects of projects on women must be avoided and discrimination against women must be eliminated by special promotion measures. The paper defines categories for the classification of projects according to their effects on women, which are obligatory for all development projects.

Furthermore, the policy paper on *Socio-cultural Criteria* (BMZ, 1992a) highlights the relevance of non-economic factors for development co-operation projects and programmes. It identifies three key factors which should be applied so that the complex problem of socio-cultural aspects and their influence on individual projects can be recorded. These factors are classified as legitimacy (willingness/acceptance), state of development reached (ability) and socio-cultural heterogeneity.

In addition to these five policy papers the BMZ is preparing a new cross-sectoral concept paper dealing with *Social Security*, which will complete the statement of policy on poverty reduction.

In addition to the central strategy papers already mentioned, there are some further policy papers related to poverty reduction. One of the most important in this context is the 1994 policy paper on financial sector development which focused on the promotion of credit and saving. It deals, *inter alia*, with the development of financial services for non-bankable, poor and handicapped people: credit facilities give them the opportunity to exploit their productive skills and improve their living conditions in a self-reliant way.

2.2 Nature of poverty and definition of the poor in the German concept

The Main Elements of Poverty Reduction paper gives the definition of poverty used in the German concept (see p.17). It represents a broad approach to the nature of poverty. On the one hand, the concept reflects the need for the requisite income to satisfy basic needs; according to the World Bank, the minimum living standard requires an annual income of US\$370. On the other hand, it emphasises that these income figures do not sufficiently characterise the nature of poverty. Poverty does not

only mean malnutrition, low life expectancy, a high infant mortality rate and a low standard of education; it also means exclusion from political and social life, exclusion from decision-making and, last but not least, limited control over one's life. To fight poverty, therefore, means a fight for higher living standards, satisfaction of basic needs *and* participation in social and political life.

Poor people in developing countries are the primary target group of Germany's development co-operation. Development co-operation distinguishes between the absolutely and the relatively poor. People who live below the subsistence minimum/poverty line are absolutely poor. The relatively poor are, in contrast, those who have an income inferior to the average income of the society. Official development aid is oriented toward the *absolutely poor* as the primary target group. To fight poverty means to offer a chance to live in dignity to those who:

- do not have sufficient income to satisfy their physical and other socio-culturally determined basic needs;
- do not have the necessary prerequisites to achieve this income, and
- are not able to change this situation on their own.

So far, BMZ has no more detailed criteria to classify the poverty target group, for example with regard to gender, family situation, social or employment categories.

3. Management of aid delivery

3.1 Organisation at the administrative level

In 1991 the BMZ established a special administrative Division for 'Cross-sectoral principles, poverty reduction and socio-cultural conditions' with four permanent staff members. This Division replaced the former staff panel charged with conceptualising poverty reduction. In 1996, a further reorganisation of the administrative structure united two formerly separate divisions, the Poverty Reduction Division and the Division for Women, Family and Youth, and created a new Division responsible for 'Women and Youth, Poverty Reduction; Socio-culture and Cross-cutting Principles', with a permanent staff of nine.

The two implementing agencies specialising in technical (*Deutsche Gesellschaft für Technische Zusammenarbeit/GTZ*) and financial (*Kreditanstalt für Wiederaufbau/KfW*) co-operation also made efforts to strengthen the poverty reduction component of their activities and adjusted their organisational structures accordingly. The GTZ created separate administrative units charged with the implementation of poverty-oriented policy. A special Staff Office (*Stabsstelle*) for poverty reduction was initiated. Moreover, to support the Operational Departments (*Bereiche*) of the GTZ, an interdisciplinary working group has been established within the Planning and Development Department. This has competence in all sector-oriented questions concerning the development and co-ordination of poverty reduction. In addition, a 'Staff panel on poverty reduction' (*Thementeam Armutsbekämpfung*) was set up. This team is to contribute to a better orientation of technical co-operation towards poverty reduction by collecting and co-ordinating all the existing initiatives of the GTZ (overseas, in the Country Departments at Headquarters, in the Planning and Development Department, etc.). The staff panel is primarily engaged in the following activities:

- clarifying basic problems in implementing poverty reduction in overseas activities,
- promoting poverty reduction as the primary objective of all GTZ activities,
- improving communication and co-ordination between field staff and Headquarters (Departments and the Staff Office),
- developing instruments and procedures, and
- initiating a learning process for the staff of GTZ.

In addition to these activities, initiatives were promoted in the partner countries to create interdisciplinary centres to study the more general and comprehensive questions of poverty reduction not directly related to special projects. Consultants for gender and poverty reduction issues were installed in the Regional Departments at

Headquarters, who, among other things, are engaged in introducing new methods to promote participation.

The KfW has also made efforts to include the issue of poverty reduction in its work, without creating specialised administrative units. The agency aims to familiarise all its staff members with the application of self-help concepts to financial co-operation. To this end, staff attend exposure and dialogue programmes, learn about successful self-help projects and participate in pilot schemes.

In addition to the Ministry and the official implementing agencies, a large number of non-governmental organisations are traditionally engaged in assistance for poverty reduction. To co-ordinate the activities of the various governmental and non-governmental organisations in this field, the 'Working group on poverty reduction by promoting help for self-help' (Arbeitskreis Armutsbekämpfung durch Hilfe zur Selbsthilfe/AKA) was initiated in 1989. The group represents an association of official institutions (BMZ, GTZ, KfW), development agencies of the churches and other NGOs. It is a useful forum for the exchange of experiences, and is active in the sensitisation of the public and development co-operation organisations to the problem of poverty and the fight against it. The working group meets regularly twice a year and has set up three subgroups, specialising in (i) organising an example of good co-ordination of the poverty reduction activities of various German development actors in one developing country (Uganda); (ii) the assessment of World Bank activities to reduce poverty in Honduras; and (iii) the joint elaboration – for the first time – of a BMZ sector policy paper (on social security).

3.2 Poverty reduction at the country programming level

Country strategy papers are one of the most important instruments of German development co-operation. These papers are elaborated only for countries which are significant recipients of German aid and they assess the major problems of the recipient country, its development potential and areas on which to focus German aid. The papers are prepared by the BMZ and supplemented by analyses of the socio-economic situation and the socio-cultural conditions for co-operation in the recipient country.

Poverty reduction plays a prominent role in these country strategy papers, and its management of poverty reduction at the country programming level has become a priority task of the Country Divisions. In this context the papers are required to focus on:

- the improvement of economic and social conditions, and identification of the poor strata of the population in the specific country context;

- the specific problems and causes of poverty;
- the recipient government's commitment to poverty reduction;
- the effects of the framework conditions on poor people and
- the compliance of German aid priorities with poverty reduction.

These aspects have to be considered especially in the chapters on 'Core problems of the partner country', 'Framework conditions', 'Priorities for future development co-operation' and 'Issues for policy dialogue'. The main results of the socio-economic and socio-cultural analysis are summed up in the country strategy papers. The analysis of the socio-economic situation includes a special section dealing with the poverty situation in the partner country. In addition, it is recommended that specific country studies should be prepared to examine the existing conditions and possible approaches of self-help-oriented aid for poverty reduction.

Staff members of the Poverty Reduction Division in the BMZ participate in all country discussions to comment on the country papers and to present proposals for further co-operation, focusing on poverty reduction.

3.3 Sectoral allocation and effectiveness

Poverty reduction has also been made a central issue in sector and cross-sector policy papers. This is important since these papers play an important role in the selection, design, preparation, monitoring and evaluation of projects and programmes. Each sector paper should refer to the relevance of and the possibilities for poverty reduction in its context, because the German approach regards poverty reduction as a cross-cutting task and the BMZ emphasises poverty reduction in all sectors and fields of assistance. As the causes of poverty vary to a great extent, an interdisciplinary and multi-sectoral approach is needed.

Nevertheless, there are some sectors and types of projects which are especially conducive to poverty reduction. German development assistance for poverty reduction has yielded positive and sustainable effects, above all in projects of the following types: financial services; credit and saving; rural development; small enterprise development; food security; informal sector development; housing; erosion control and protection; water supply; irrigation; and basic education.

Early experience indicates that projects in the fields of food security, the reintegration of economically and socially uprooted groups and the reconstruction of destroyed or poor areas, rural development, agriculture, forestry and fishery, and environmental and resource protection are to a high degree projects of direct poverty reduction because of their clear orientation towards poor people as a target group. Indirect poverty reduction measures in German aid have so far concentrated especially on

financial services and small enterprise development. Up to now, the majority of aid projects for poverty reduction have been implemented in the fields of direct and self-help-oriented poverty reduction.

Technical co-operation projects aiming at poverty reduction have concentrated on agriculture, forestry and fisheries. From 1991 to 1994, 48% of the GTZ projects for poverty reduction through self-help were placed in these areas, 61% of them in Africa. Other important self-help projects were in the sectors of health, social infrastructure, education and science (See BMZ, 1995b: 18–19) (see Chart 1).

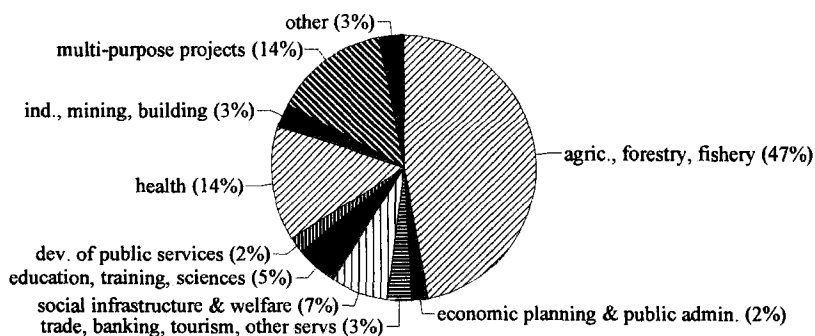
In the area of financial co-operation, supply of drinking water (one-third of all projects) and small-scale farming (31.7%) were the most important sectors for self-help-oriented poverty reduction projects from 1991 to 1994, with housing as the third sector at 11.2%. In general, financial co-operation is more diverse than technical co-operation in sectoral allocation of projects and funds. There also seems to be another trend: the share of small-scale farming is declining and sectors like environmental and resource protection, credit and education are growing; water supply and housing remain significant (*ibid.*: 29–30) (see Chart 2).

An analysis of project evaluation reports of 1993 and 1994 with regard to their statements on poverty reduction shows that projects in the field of financial services, small enterprise development, trades and crafts, and rural development have mainly achieved positive results. Projects in these sectors cover a wide variety. They succeeded in the creation of jobs, the sustainable integration of enterprises into the economic sphere and the accumulation of savings in case of unexpected need or necessary investments. In the rural development sector, which shows a highly diverse picture in general, projects with an open and integrated approach nevertheless reached positive results in the improvement of the living conditions of poverty groups.

Compared with these positive results in the financial and agricultural sectors, environmental and resource protection projects found it difficult to reconcile the objective of poverty reduction with environmental goals. Positive results were achieved especially by promoting single measures; this also applied to projects in other sectors such as food security and rural development.

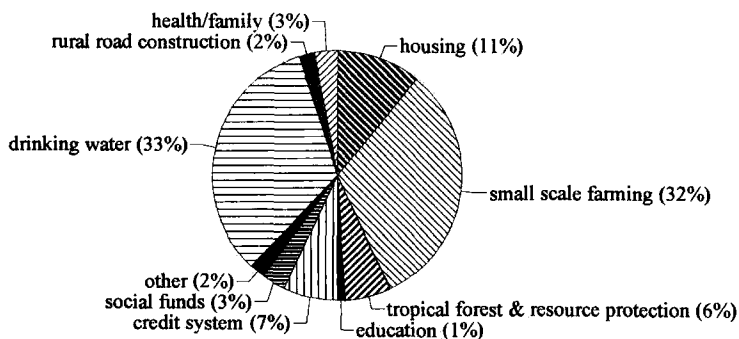
Projects in the fields of health and population policy were disappointing, according to this first assessment. Structural reforms also brought only limited results, which is contrary to their key function in the poverty reduction policy. Educational projects cannot be assessed at this time because evaluation reports do not provide the necessary information.

Chart 1 **Technical co-operation: poverty reduction projects with self-help approach by area of promotion (1991-4)**



Source: BMZ, 1995b: 19

Chart 2 **Financial co-operation: poverty reduction projects with self-help approach by area of promotion (1991-4)**



Source: *ibid.*: 30

Box 1 Projects for poverty reduction in technical co-operation

Example 1: Advisory services for the rural credit system (financial system) in Bolivia (German contribution in 1995: 3.5 m. DM)

The Bolivian Government introduced reform of the financial system at the end of the 1980s, but it has not yet succeeded in improving the access of large segments of the population to financial services. The poor, especially in rural areas, face considerable difficulties in availing themselves of financial services. A major shortcoming is the lack of a consistent and clear policy for developing the rural financial system. On the part of the government, measures have to be taken in the areas of system development, developing and revising the judicial system as well as advisory services for rural financial intermediaries.

The initial plan is to draw up a joint concept through dialogue and in agreement with Bolivian NGOs and other donors. By means of these NGOs, the poverty target groups participate in this process. In order to enhance the co-operation, Germany aims to co-ordinate the activities of BMZ, GTZ, KfW, the Catholic Centre for Development Aid, the Protestant Centre for Development Aid and the German agricultural credit co-operatives (Genossenschafts und Raiffeisenverband). As a first step, the problems will be analysed comprehensively in co-operation with the Bolivian partners, and an assistance strategy will be worked out and co-ordinated with the Bolivian Government.

Example 2: Erosion control programme in Maharashtra, India (German contribution 1995: 6 m. DM)

Because of increasing forest exploitation caused by a growing population, total deforestation has occurred throughout large parts of the State of Maharashtra in the upper catchment area. For some time, the German Government has assisted the Indian partners in their efforts to reduce erosion and to increase the level of groundwater through a number of individual measures. Since 1992, the programme has been supported by financial co-operation funds (12 m. DM, an additional 25 m. DM have been committed) and by technical co-operation funds (1.2 m. DM up to now). Main features are, for example, reforestation, growing wind screen hedges and planting firewood nurseries. These measures have proved highly successful. Drinking water is now available even in years of drought, grain production and income levels have doubled. The success was based on the acceptance and the willingness of the population to participate actively, for example, by serving on water committees.

In this context co-operation between governmental and non-governmental agencies, as well as financial institutions, plays a significant role. The responsibility for important areas of project implementation has been delegated to the private sector and non-governmental agencies, thereby realising a considerable degree of participation by concerned population groups in the planning and implementation of individual measures. The project was essential in breaking the vicious circle of population growth, destruction of the environment and mass poverty. Based on the successful implementation of these measures, the government of Maharashtra decided to support a similar programme throughout the entire state with its own funds. Legal provisions have been modified to enable rural dwellers who participate in the programme to acquire the right to use the newly planted trees. The funds committed for 1995 (6 m. DM) were intended for training members of participating grass roots organisations and government institutions.

Box 2 Projects for poverty reduction in financial co-operation

Example 1: Rehabilitation programme of small and medium irrigation areas in the northern provinces in Morocco (German contribution 1995: 32 m. DM)

The Moroccan Government has announced a large-scale programme to promote small and medium irrigation areas. The purpose is to rehabilitate the irrigation infrastructure in traditional small-scale irrigation areas and to establish additional irrigation infrastructure. This programme is to complement the large-scale irrigation areas which had been the focus of attention for a long time and which are cultivated by large landowners and industrial businesses. The new programme is intended for those rural target groups who live predominantly below, or at, the national poverty line. It plays an important role with respect to improving the living conditions (food security among others) of that part of the population which may be forced into migration because of frequent periods of drought. Small-scale irrigation areas will show sustainable success only if the target group is fully involved in the planning and especially the realisation of individual measures. A precondition for the inclusion of individual irrigation areas in the programme is therefore the willingness and capability of the individual target group to form user associations and to take responsibility for maintaining the rehabilitated irrigation infrastructure. The project is supported by existing self-help structures which were established to ensure the economical use of scarce water resources. Therefore, one of the project's activities is intended to strengthen and train these user associations.

Example 2: Basic education programme in Chad (German contribution 1995: 10 m. DM)

Compared with other countries in this part of Africa, primary education in Chad is characterised by the highly active role of parent associations (APE) which on their own initiative have built schools in numerous locations and often paid the teachers' wages. It is mostly women who organise and manage the APEs' activities. About 71% of the primary schools in Chad are financially supported by local APEs. There are two reasons for this unusual commitment. During the long years of civil conflict the government was largely unable to exercise its basic functions. Also, basic formal education has a high priority among Chad's population. The parent associations have encouraged and influenced the plans of the national development agency for a strategy to improve the primary school sector. The aim of the programme, supported by the World Bank and the German Government, is to ensure and improve access to primary education especially for the poorest segments of the population and in rural areas. This is particularly important for girls, whose rate of enrolment is substantially lower than that of boys. The project is an open programme, i.e. the schools which will receive assistance are not preselected. A criterion for deciding on the location of new schools is whether it will promote the enrolment of girls. The target group-oriented concept of the project is reflected in the fact that individual schools and teaching staff are selected and supported in close co-operation with the parent associations. The overall German contribution of 15 m. DM is earmarked to build and furnish a total of about 650 classrooms. The parent associations share the construction costs and contribute substantially to maintenance and running expenses.

3.4 Procedures and instruments

The concepts of German aid policy for poverty reduction rest on three basic principles of implementation: priority of structural changes; self-help and participation; and promotion of the productive and creative capabilities of the poor. During recent years the BMZ has revised its aid instruments and procedures and developed new ones to meet the demand for poverty reduction. Today, the most important procedures and instruments in German policy to reduce poverty are the following:

- as mentioned above, *country strategy papers* describing the goals and major areas of co-operation with individual developing countries, supplemented by a socio-economic analysis of the country, which gives a special assessment of the poverty situation;
- special *country studies on the poverty situation*, a new instrument, concentrated on self-help-oriented poverty reduction. These studies analyse (in more detail than the socio-economic analysis) the basic poverty data of the recipient country and the conditions for aid measures in this field (especially concerning domestic policies). They should also identify approaches for future co-operation with respect to the sectoral allocation of aid, as well as potential partners (NGOs);
- *stronger participation of the target group* and a better feedback of their ideas and needs. Special emphasis is placed on the promotion of NGOs and the development of community-based organisations in the partner countries;
- *self-help revolving funds*. The underlying idea is the establishment of funds to be administered by local/national executing agencies and used for the distribution of credits, as loan guarantee funds or as capital stock to generate earnings for development goals.

Participation is the key method with regard to poverty reduction. The BMZ is promoting the application of professional participatory methods; its staff and that of the implementing agencies therefore need special training and qualifications. In this context special emphasis is put on Participatory Rural Appraisal and Exposure and Dialogue Programmes. Exposure programmes, for example, were introduced to give policy decision-makers the experience of the realities of poverty, the basic idea being for staff to live for a few days or a week among and with the poor in developing countries. The programmes thus offer the chance to interact with the poor, the better to understand the difficulties of overcoming poverty. Exposure and Dialogue programmes have been carried out, for instance, in Bangladesh, India, Indonesia, the Philippines and Zimbabwe and have been successful as an instrument in training the staff members of aid institutions.

3.5 Country distribution of bilateral aid – the share of self-help-oriented poverty reduction

Measuring the share of poverty-oriented projects in German aid policy is difficult because clear statistical criteria for classifying them do not yet exist. The BMZ is still seeking to define such criteria; a study is currently under way.

Consequently, there are no comprehensive statistics on poverty reduction measures. In this situation, BMZ uses the portfolio of self-help-oriented and basic needs development projects, both of which are used to assess the poverty orientation of German aid.

Self-help-oriented projects in technical and financial co-operation are classified by the BMZ with the help of a guideline derived from the concept paper *Fighting Poverty by Promoting Self-help*, described earlier (BMZ, 1990). A project is classified as self-help-oriented if the first five criteria mentioned above in this paper largely apply.

Table 2 shows the development in the share of self-help-oriented projects thus classified. Although it was initially quite low, it has steadily increased and in 1996 reached its highest level. Preparation and implementation of self-help projects are quite complicated because they require considerable co-ordination among a large number of actors: the German Government and that of the recipient country, NGOs in Germany and in developing countries, grass roots organisations and the poverty target groups themselves all have to be considered.

Table 2 **Development of self-help-oriented projects**
(technical and financial co-operation)

<i>Year</i>	<i>Actual commitments</i> (DM m.)	<i>% of total</i> <i>development assistance</i>
1991	333	8.0
1992	378	9.4
1993	412	10.2
1994	491	12.6
1995	661 ^a	18.5
1996	698 ^a	18.6

^a planned

Source: BMZ, 1996

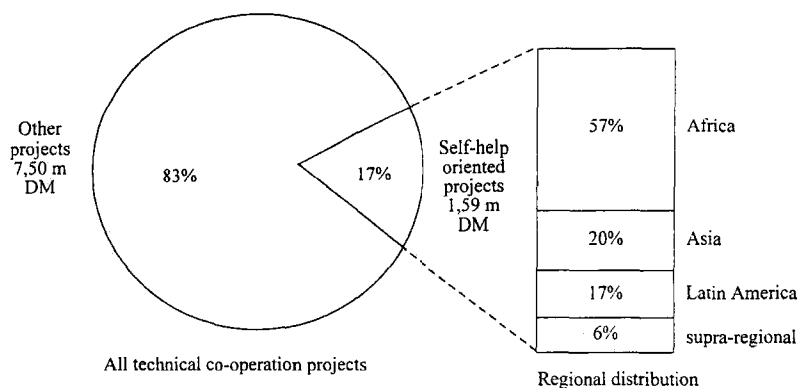
As regards the country distribution of aid for poverty reduction, the BMZ has not yet published comprehensive statistics. According to data available in 1994, the most important commitments of aid for self-help-oriented poverty reduction were to countries like India, Zimbabwe, Tunisia and Nepal. In general, the BMZ regards co-operation with least developed countries and other poor countries as of special importance. The share of least developed countries envisaged for official aid flows amounted to 25% in 1996, and the share of poor countries in general to 65%.

The BMZ seeks to base the country distribution of aid on the recipient government's commitment to poverty reduction, which is an important criterion of German support. German development co-operation assesses the development commitment of governments with the help of five criteria which reflect the general political and economic conditions in the recipient countries: human rights, popular participation in the political decision-making process, the rule of law, economic and social conditions and general economic policies favourable to a market economy, and good governance. This last criterion requires that 'Government policy gives priority to the improvement of the economic and social situation of the poor'. The BMZ uses these criteria to determine the volume and mode of co-operation with each country. This practice is sometimes problematical, however, because of the intervention of differing political interests.

With regard to the main fields of development co-operation, the geographical distribution of aid for self-help-oriented poverty reduction shows the following characteristics:

- a. Technical co-operation expenditure for poverty reduction has been primarily in Africa. Between 1991 and 1994, 141 GTZ projects (58.5% of all projects) related to poverty reduction and self-help, with a total expenditure of 918 m. DM (57.8%), were carried out in African countries. Almost 20% of the relevant funds were allocated to Asian and 17% to Latin American countries (BMZ, 1995b: 18) (see Chart 3).
- b. Financial co-operation also concentrated primarily on Africa. During 1991-4, 50.7% of the financial co-operation funds for projects related to self-help-oriented poverty reduction was allocated to Africa, followed by Asian countries (31%) and the American continent (15.2%) (ibid.: 29) (see Chart 4).

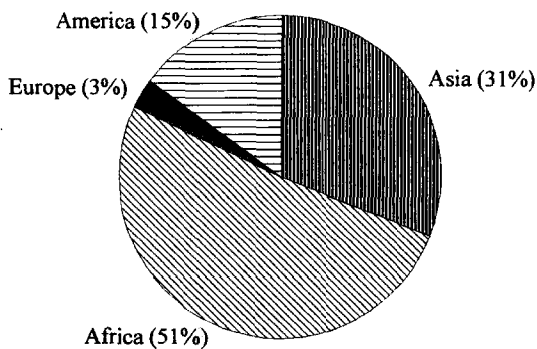
Chart 3 Technical co-operation: self-help-oriented poverty reduction co-operation as percentage of total technical co-operation projects (1991-4, value of contracts, 1000m. DM)



Total value of contracts of active projects. 1991-4, 9,09 m DM

Source: BMZ, 1995b: 20

Chart 4 Financial co-operation: poverty reduction projects with self-help approach by continents (1991-4)



Source: *ibid.*: 29

4. Problems of implementation

By the beginning of the 1990s German development co-operation had developed the necessary conceptual guidelines for a policy focused on poverty reduction. The most important task now is to implement the existing policy papers. There are several problems, however, the most important of which are outlined below.

4.1 Problems associated with poverty conceptualisation

Acceptance

Fighting poverty is a question of political resolve. Although official documents and statements of policy emphasise explicitly that poverty reduction is the primary objective, development co-operation, in practice, faces problems of acceptance. This concerns both recipient and donor countries and is related to:

- a misunderstanding of the existing concepts of 'poverty' and 'poverty reduction',
- the importance of poverty reduction within the framework of development co-operation measures, and
- the problem of finding appropriate instruments for poverty reduction.

First of all, there has been resistance to the idea that poverty reduction should be regarded as a major aid objective. The main developmental objectives are usually understood in terms of modernisation and the promotion of economic growth, and there has been a reluctance to dilute these priorities by adding the poverty goal. This reluctance has been accompanied by uncertainties about the meaning of the fight against poverty. This has often been reduced to direct poverty reduction measures, which are only one element of poverty reduction in the German concept. The consequence is that poverty reduction is considered to be a small-scale donation of 'charity'.

Secondly, the elevation of poverty reduction as the primary objective gives the impression that development co-operation implements only measures for poverty reduction. This is not the case, but this over-simplified view presents an obstacle to the realisation of the policy, especially since poverty reduction is often seen as synonymous with directly poverty-reducing measures.

Last but not least, difficulties in achieving public acceptance result from deficiencies at the instrumental level, i.e. problems with modifying the existing instruments and with finding new instruments appropriate to poverty reduction (taken up in the following chapter). The basic problem is that some of the main 'traditional' procedures and instruments are not quite appropriate to poverty reduction. Although the BMZ has modified some of these procedures and instruments and has developed new ones, some of these innovations have not yet been sufficiently tested. The search for appropriate instruments and procedures of aid delivery is still going on and focuses in particular on the achievement of 'participation'.

Problems of operationalisation

With the issuance of at least five policy papers dealing in a narrower sense with poverty reduction, German policy has a very broad conceptual basis in this field. This creates problems for implementation. Staff members in the BMZ and the executing agencies have to carry out the proposals of five policy papers simultaneously and they are often overburdened.

Furthermore, the overall philosophy is very broad and rather abstract. It is not easy to put into operation. In addition, although the conceptual approach is very broad, in some aspects it needs further differentiation and development. This is especially evident in the field of indirect poverty reduction, where BMZ staff face many problems in carrying out the policy.

'Structural reforms' and 'indirect poverty reduction' often (although not always) cover the same issues. 'Structural reforms' to reduce poverty mean first of all reforms at macro- and sectoral levels. The categories 'indirect' and 'direct' poverty reduction are used in another sense. Direct effects can be obtained if a poverty target group can be identified and distinguished from others; indirect reduction means that a target group cannot be identified. Both approaches may come under the category of 'structural reforms', but need not do so.

When assessing and classifying projects, one of the most difficult issues is to decide whether a project with indirect effects is to be considered poverty-oriented or not. BMZ does not accept the theory of 'trickle down'; rather, it seeks to define more precise criteria. A study on the criteria of poverty projects has been commissioned. In the meantime the BMZ uses the following features to identify indirect poverty reduction projects:

- integration of the project in an overall or sectoral poverty-oriented policy framework in such a way that the poor will benefit from broader possibilities of action and better distribution;

- mechanisms to strengthen key government functions which have a bearing on poverty reduction (e.g. basic education, health);
- political and economic conditions contributing to more efficiency, better availability of factors of production or other improvements to the benefit of the poor;
- framework conditions existing in the sector or subsector of the project which do not discriminate against the poor but should improve their involvement in development;
- the efficiency of the sector or subsector (private sector forms of organisation, commercial modes of work, rate of cost recovery, cost-benefit ratio, competitiveness).

The BMZ has no clear-cut catalogue of 'pro-poor economic reforms'. According to the BMZ position, features of such pro-poor policies include: a broader scope for the poor to articulate their economic and social interests; freedom of assembly, an administrative and legal system favourable to the poor (e.g. decentralisation); economic, financial, budget, welfare and agrarian policies geared to the needs of the poor.

In addition, even the classification of directly poverty-oriented measures is not very clear. Until now, the central and sole criterion for this classification has been the share of poor people within the group of beneficiaries. The BMZ concept describes the criterion for direct poverty-reducing projects as: '... more than 50% of the beneficiaries must be poor people.' The BMZ does not yet have the criteria and indicators to define the target group more clearly, for instance by a further differentiation of 'the poor'. Thus, the classification of projects is rather difficult and sometimes subjective.

4.2 Problems associated with instruments

The central role of 'participation'

The promotion of participation plays the central role in the philosophy of aid for poverty reduction through self-help. However, its implementation meets with some problems in practice.

First, development co-operation in the recipient countries is often confronted with political structures which do not facilitate or promote the participatory initiatives of the population. Of course, the BMZ has only limited possibilities to influence the political framework conditions, and concentrates on policy dialogue and so-called

positive measures to improve the national political environment by promoting democracy.

Participatory approaches also encounter problems relating to the project planning procedures and instruments used by donor countries. The instruments and procedures used and the traditional project-oriented thinking run partly counter to a broader participation of the population in partner countries. One of the most important instruments of technical co-operation is the so-called ZOPP, an objective-oriented system of project planning which is the German version of a 'logical framework'. Most criticism points to the fact that

the question of the target group is only raised when the project has already been mostly designed and decided by the managers. Typical example: the decisive phases 1 to 3 of ZOPP are to be carried out without direct participation of the target group from the developing countries; it is only included (if it is at all), when the project is already planned and decided (BMZ, 1994: 3).

Thus, the instruments of German development co-operation contradict in some of their elements the overall philosophy of aid for poverty reduction.

Several members of the German aid community have expressed fundamental opposition to the handling of 'participation' in practice. For instance, Professor Pinger, the spokesman of the ruling party on development issues, is extremely critical of the role of participation in German development assistance:

Poverty reduction as basic needs programmes always stayed in the hands of the German implementing agency, while the affected population could only participate in a very limited manner... This insight should lead to a completely different approach for self-help projects since traditionally aid efforts are oriented towards the needs of recipient governments (Pinger, 1995: 3-4 cited in Deutsches NRO-Forum Weltsozialgipfel 1996: 23-4).

According to the self-help approach the first step is to ensure the participation and initiative of the target group. Having established the necessary partnership, the second step is the design and the actual planning of the project. This approach is in contrast to existing practice which begins with project planning and involves the target group only later. This 'new type' of project requires first of all the identification of the self-help potential of the target group as well as the limits of self-help. It also requires more flexibility in the project cycle and in the strict budget procedures of the BMZ. The implementation of this approach is accompanied by a learning process on the part of all participants and should include flexible responses. A long preparatory phase (of orientation) within the project management cycle is therefore definitely needed. In view of the problems in this field, thought is being given to modifying the existing ZOPP procedure in accordance with the poverty reduction objective.

Participation of the poverty target group in the process of planning and implementation also presupposes willingness on the German side to yield some of its 'power' and to implement projects in accordance with the principle that donors should interfere as little as possible. Experience shows that official development projects do not sufficiently adhere to the principle of transferring decision-making as much as possible to the target group, whereas German NGOs have made much more progress in this area.

Problems of measurement and evaluation

As mentioned above, the BMZ does not yet have the necessary statistical criteria to classify its activities as 'poverty reduction-oriented'. In consequence it is not able to publish comprehensive statistics of poverty-oriented activities and has not evaluated its projects sufficiently with regard to their poverty-reducing effects. The BMZ suffers especially 'from the fact that the Ministry does not include information on target groups in its purpose code'. The new BMZ policy paper on target groups 'helps in clarifying and standardizing the methods used in the German aid program. However, it does not give operational criteria for classifying individual projects according to poverty issues and participation of target groups' (Deutsches NRO-Forum Weltsozialgipfel, 1996: 23).

German NGOs are critical of this situation because it facilitates the application of rather arbitrary criteria (See Deutsche Welthungerhilfe/terre des hommes, 1995: 14f.). They demand more transparency. The study on 'criteria for the classification of poverty projects' recently commissioned by the BMZ aims at the elaboration of specific criteria for indirect and structural poverty programmes. In addition, progress could be made if the Development Assistance Committee of the OECD introduced a new category of 'poverty' in its annual member states' progress reports and defined clear criteria for poverty measures. In December 1994, the BMZ launched an initiative in the DAC to establish poverty reduction as a third cross-sectoral area on which donors would be required to report.

Moreover, it is necessary to assess the benefits of projects and to identify the actual beneficiaries. The monitoring and evaluation of project poverty reduction effects therefore have to be improved. The criteria used by the BMZ refer only to self-help-oriented and basic needs projects. This classification cannot give a representative survey of the policy's implementation and the effects in practice.

Technical and financial co-operation

Until now, most of the projects in the poverty reduction field have been technical co-operation projects. The experience of German development practice shows that technical assistance projects seem, in general, to be more conducive to poverty reduction than financial co-operation projects.

In quantitative terms, about two-thirds of German aid consists of financial co-operation. Given the fact that the German poverty reduction policies have primarily been implemented through technical co-operation and that technical co-operation is of quantitatively minor importance in total aid, the question arises of how Germany can implement its policy of giving priority to poverty reduction.

Despite the fact that all assistance for self-help-oriented poverty reduction is in the form of grants, loans have a relatively high share in other fields related to poverty reduction (for instance, some projects in basic education and in the water sector) (Deutsches NRO-Forum Weltsozialgipfel 1996: 26–7). The promotion of the water sector in developing countries is one of the focal areas of German financial co-operation. The possible increase of foreign debt as a consequence of the loan policy can undermine the positive effects of poverty reduction measures. Case studies carried out by UNICEF reveal that the public debt-service burden in developing countries prevents the expansion of social services for the poor. German NGOs therefore demand that ‘in order to allow for a comprehensive poverty focus of the German aid program all transfers should be passed on as straightforward grants’ (ibid.: 25).

Germany has done a lot in the field of debt relief. In 1996, it became possible for the first time to swap debts for poverty reduction measures. In the same year, the Bundestag decided to convert debt service on outstanding development loans to an amount of 200 million DM. These funds can now be allocated to measures for poverty reduction. Moreover, since 1989, financial co-operation funds dedicated to self-help-oriented poverty reduction projects can be provided (up to a certain amount) in the form of grants for recipient countries which normally obtain their financial assistance in the form of loans.

German NGOs welcomed these steps, but stated at the same time that these initiatives – compared to need – were not sufficient (ibid.: 26). Within the international donor community, Germany ranks among the donors with the highest share of loans in their aid programmes. According to the NGOs, a true orientation of development policy towards poverty reduction requires a change from loans to grants.

4.3 The 20:20 initiative

The World Summit for Social Development held in 1995 in Copenhagen outlined the importance of a national policy oriented towards poverty reduction and the need for new activities to strengthen such policies. The documents of the conference, the Declaration and the Programme of Action, include comprehensive commitments for all (industrialised and developing) countries to pursue national policies oriented to the removal of poverty and the promotion of productive employment and social integration. The removal of poverty is declared to be the primary goal of national policy and international co-operation. Within this framework, the summit emphasised the importance of social security systems for poverty reduction and social integration. The Declaration states in Commitment 9 (I): 'At the international level, we will ... increase the share of funding for social development programmes ...'. The Programme of Action (para. 88(c)) declares 'an agreement on a mutual commitment between interested developed and developing country partners to allocate, on average, 20 per cent of oda and 20 per cent of the national budget, respectively, to basic social programmes', with basic social services defined as basic education, basic health services, water, sanitation and food.

The German Government supports the 20:20 initiative. However, follow-up has been slow. The BMZ hesitated to go ahead without clearly defined areas of application. The Oslo conference in April 1996 helped to clarify the promotion areas of 20:20, but the discussion on benchmarks (see below) still continues within the DAC. Although some questions of definition remain open, the 20:20 initiative is already part of the German dialogue with interested countries. According to the internal classification of 'human priorities' in BMZ statistics their share of total bilateral commitments reported to the DAC reached 21.2% in 1994 (*Deutsches NRO-Forum Weltsozialgipfel*, 1996: 17). Thus, Germany has already put its commitment at the summit into practice.

However, a more detailed analysis of German performance shows that the BMZ statistical system differs from the definition of basic social services used by UN institutions up to now. According to the UN definition, there is a benchmark on costs for measures in the fields of water and sanitation to make sure that the statistics involve only projects from which poor people benefit directly. Only equipment for drinking water supply with costs of less than US\$30 per user and sanitation costing less than US\$20 per user are considered to be part of basic social services. *Deutsches NRO-Forum Weltsozialgipfel* explained in its statement that German statistics do not differentiate with respect to the cost level. It is possible that a number of German projects in the water sector are above the benchmark. Other official BMZ statistics show that the actual share of core areas of basic social services (comprising only basic education and health services as well as family planning) amounts to about 6% of the overall performance (*ibid.*). In addition to this controversial dispute, it is common

knowledge – also in the BMZ – that much remains to be done to put the initiative into operation and to adjust it to the Ministry's participatory approaches to poverty reduction.

5. State of implementation

Although German development co-operation has made remarkable progress in the conceptualisation of poverty reduction as a primary goal, there is still an obvious gap between the philosophy and its implementation in practice. This discrepancy is reflected in the allocation of funds within the aid framework in general, the actual share of poverty-reducing projects within aid programmes, as well as in the implementation of the 20:20 initiative.

The criticism of German NGOs is that the central demands of BMZ policy papers, such as the implementation of structural reforms and the application of political conditionality, are not yet achieved in practice. Without the implementation of reforms in political structures, poverty reduction activities in development aid have achieved only limited success. More emphasis should therefore be placed on the development of structural framework conditions and on the removal of the causes of poverty.

Yet, the results achieved in the field of poverty reduction fall short of the status attached to the poverty reduction objective in German aid. The poverty reduction aspect is not given enough consideration at the moment to meet the complexity of the issue at the different stages of co-operation, i.e. planning, implementation and results. New elements of a strategy geared more towards poverty reduction still need to be tested. Despite the proclamation of poverty reduction as a primary goal of German development assistance, the BMZ's Poverty Division has not yet succeeded sufficiently in its efforts to translate the well prepared policy papers into concrete development measures for its Country Divisions.

Reflecting the problems of decreasing aid budgets and the debate on aid priorities, the budgetary allocation for 1997 shows a decline in the funds for self-help-oriented poverty reduction. In 1996 some 700 million DM (in financial and technical assistance) were allocated to poverty reduction through self-help, representing 18.6% of total aid funds. In 1997 the amount will decline to 500 million DM in absolute terms, 14.2% of total funds. Even taking into account that the overall budgetary funds for development co-operation are declining, there is a growing contradiction between the stated priority of poverty reduction and the actual allocation of funds. The German aid community has therefore demanded a change in the distribution of funds in line with stated goals. Representatives of German NGOs are concerned that these developments are the first sign of a redefinition of German aid policy and of a new orientation characterised by reduced importance for self-help-oriented poverty reduction.

However, aid for poverty reduction has achieved some positive results. Experience shows that the objective of poverty reduction as a priority of German aid is realistic. What matters is to concretise the approach, to develop clear criteria for the classification of poverty-reducing projects and programmes, and to find and use the appropriate instruments and methods (i.e. in particular a consistent application of the participatory principle together with concentration on poverty target groups), so that poverty reduction achieves in reality the priority stated in policy papers.

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