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EDITORIAL

The current issue of Dialogue is devoted to two topical questions that lie at the core of DIAL's work. The first deals with the prevailing relationships between economic growth, distribution and poverty. This is, of course, a subject that has been discussed at length, sometimes in different forms, by economists since the origin of their discipline. For various reasons, however, this topic has recently become the subject of renewed interest in the developing countries. Questions have been raised concerning the impact of economic crises and of adjustment on the most underprivileged populations, about the role of the State, and regarding the redefinition of foreign aid objectives within a geopolitical context altered by the fall of the Berlin wall. Human development is at the heart of objectives set by the donor community for the twenty-first century; the fight against poverty has become today the priority of many donors. Given these conditions, questions concerning the links between growth and distribution, or between development and poverty, are no longer academic : they are, in fact, central to current debates on policy direction within the developing countries and how the donor community should provide support.

Our second article is devoted to the question of aid effectiveness, a topic not much studied by francophone researchers (but far more in the Anglo-Saxon world). Debates on this subject have also revived during recent years, both within the recipient countries – notably because of doubts about the effectiveness of tools such as technical assistance, structural adjustment or the conditionality mechanisms – and among the donor countries – where the reduction in aid budgets, during the 90s, has raised questions of their usefulness. The World Bank recently contributed to this debate with their document *Assessing Aid*, published in November 1998. Over the coming months, analyses of this report, and above all its proposals of aid reorientation, are going to be at the centre of discussions about aid and development.

We conclude our editorial with the news that – at last – DIAL is now fully "on-line". You can find us on the Web at www.dial.prd.fr ; you can also contact us at dial@dial.prd.fr

Economic growth, inequalities and poverty in developing countries

As early as the beginning of the 1980s, many developing countries embarked on structural adjustment programs in order to correct macroeconomic imbalances that had become unbearable. Following the example of UNICEF, significant criticisms have been voiced about the impact of these macro-economic policies on the well-being of households. Since then, a considerable empirical literature has been published in order to ascertain whether the policies of adjustment have had a negative and disproportionate impact on the poor. Even though the question is still very much debated, this deliberation has given a fresh impetus to the social dimension of adjustment, to the extent that the fight against poverty is now billed as the first priority of the World Bank.

Any approach to "monetary" poverty, based upon income or household consumption data, is primarily a circumstantial view. Indeed, to understand the relationships between growth, inequality and poverty we must add to this perspective the range of inequalities in income distribution. In the longer-term we are interested in so-called “human” poverty, relating to difficulties in obtaining basic services (education, health), to the lack of social cohesion and of social "assets" (in the wider meaning of the word). Such considerations are frequently combined with structural factors related to inequality.

Empirical knowledge about the evolution of inequalities in developing countries is, today, rather disparate. The aim of this article is to present a rapid and all-encompassing view of the evolution of inequalities and poverty in developing countries over the last thirty years. We identify the structural and determining factors of this evolution as well as the impact of policies that have been implemented.

I. Inequalities in income distribution and poverty

Global evolution over a long period

Most recent empirical studies about inequalities in income distribution draw on data collected by Deininger and Squire (1996), to be found at the World Bank. Three main conclusions emerge from the published literature. First, income distribution inequalities are relatively stable over time, within a given country or region, independently of considerable observed global income variations. Second, significant inequality variations have been recorded between countries or regions within a given period of time. Third, global redistribution measures can conceal income variations within different groups of individuals. Time series data from Deininger and Squire (1996) show that, in 55% of cases, Lorenz curves intersect. This shows that, for these countries, different quintiles of individuals benefit from significant variations in income shares, despite the apparent stability of the Gini[1] coefficient. This also implies impossibility in achieving a consensus as to the direction of the evolution of inequalities.

Poverty has been on a downward trend in the developing countries over the last twenty years, whichever indicator or poverty threshold is used. However, quantitative differences over time are very small. The incidence of absolute poverty[2] in the developing word remained relatively stable during the second half of the 80s, with one person in three living on less than one dollar per day, and nearly two persons in three living on less than two dollars per day.

The percentage of the developing world population living below the poverty line (one dollar per day) is estimated at 33.2% in 1985, 30.1% in 1987, and 29.4% in 1993 (World Development Indicators 1998). This global trend towards a reduction of poverty is confirmed by the UNDP Report on human development (1997), which estimates that monetary poverty, as defined by the threshold of one dollar per day, has dropped from 34% of the population of developing countries in 1987 to 32% in 1993. In absolute terms, the number of

1 Each individual or sub-group of individuals, i (e.g. the poorest 20%) is defined by its size within the total population, pi, and the share of the income that it receives, qi. The Lorenz curve represents the combined income distribution between the individuals by linking each point on the (p,q) axis. Individuals earn the same income (egalitarian distribution) when the Lorenz curve merges with the first bisecting line. One can then deduce the most commonly-used inequality index, the Gini index, which measures the difference between the income distribution and a perfectly egalitarian distribution included between 0 (equality) and 1 (so completely unequal distribution).

2 From an absolute threshold of poverty, defined using an unvarying and objective criterion (e.g. the real per capita income), it is possible to determine several poverty indicators including, notably, the incidence of poverty (number of persons living below this threshold).

poor has increased more or less in line with the population, at the rate of 2% per year. The number of people affected has thus risen from 1.2 billion in 1987 to 1.3 billion in 1993.

Regional specificity

Regional differences may be characterised, schematically, by the following orders of magnitude. Inequalities are strong in sub-Saharan Africa, in Latin America and in the Caribbean. In Latin America the Average Gini index is 0.50, ranging from 0.57 for Brazil to 0.42 for Bolivia. This compares with an average of 0.39 for all developing countries excluding Latin America. None of the Latin American countries has a Gini coefficient inferior to 0.40. This contrasts with the situation in sub-Saharan Africa where the coefficient is 0.29 for Rwanda and 0.62 for South Africa. Inequalities in East and Southwest Asia are less pronounced: the Gini index ranges from 0.30 (Taiwan) to 0.50 (Malaysia)[3].

Results published by Chen and Ravallion (1997) cover 67 countries between 1981 and 1994. Of these, 44 have at least two points in time. The study shows that poverty unequivocally dropped in East Asia (7 cases in 9) and Latin American (7 cases in 17). Poverty has increased in Eastern Europe and Central Asia, and also in sub-Saharan Africa. The situation in South Asian countries appears ambiguous.

Finally, the three most widely used indicators for "social well-being" (infant mortality rate, life expectancy, primary school enrolment rate) demonstrate a marked, positive performance over the period for Latin America and Southeast Asia. Figures for North Africa are situated between those for these two regions, and those of the laggard countries of South Asia and sub-Saharan Africa where efforts must be sustained, and intensified, in order to reach levels close to those of the overall sample, even though these standards are still inadequate.

Asia, Latin America and sub-Saharan Africa therefore show different patterns of income inequality, even though the weak evolution of the distribution over time appears as a feature common to the three regions. Their respective performances in terms of economic growth are also divergent[4]. These two factors raise problems regarding the link between growth and income distribution. Is economic growth necessarily a favourable factor for a better distribution of incomes in developing countries? Will any subsequent economic growth be slowed down by an unequal initial distribution? What are the consequences in terms of poverty?

II. The links growth-inequalities-poverty

Empirical works on inequalities have as a goal (among others) the establishment of a relationship between growth and income distribution. The long-established tradition of this type of analysis has generated a certain number of controversial results, the main one being that of Kuznets (1955), according to which inequalities should initially increase with a rise in incomes, then decline with higher levels of income per capita. Even though the relationship established by Kuznets from time-series data appears to be valid over the period 1960-1970, it is not based on sound foundations and is today partly called into question. Recent empirical results, covering a large sample of countries over a long period, give little credit to the existence of an inverted U-shape relation between income levels and inequalities. Deininger and Squire (1996) failed to confirm the Kuznets relation in 90% of cases.

Recently, the question of income distribution inequality and its repercussions on growth has been thoroughly explored in a theoretical perspective related to the political economy of growth, and is now supported

Table 1: Average Gini coefficients broken down by regions 1960-1990

Region	1960s	1990s	Number of countries	Number of observations[(a)]
Sub-Saharan Africa	49.90	46.95	24	40
South Asia	36.23	31.88	5	60
North Africa and Middle East	41.39	38.03	6	20
Latin America and Caribbean	53.24	49.31	20	100
East Asia and Pacific	37.43	38.09	13	123
Industrialised countries and high income countries	35.03	33.75	21	238

(a) Changes may occur within regions since an identical number of observations is not available for all the countries and for all the decades.

Source: Deininger and Squire (1996)

by many empirical contributions. Results show that strong inequalities do affect growth in a negative way (Alesina and Rodrik 1994, Birdsall, Sabot and Ross, 1995).

However, it seems there is no systematic link between growth and changes in income inequalities. The main evidence for this lack of a clear relation lies in the fact that, even if average incomes increase or decrease, variations in the Gini coefficient remain weak over time. Furthermore, income distribution appears to affect growth more than growth affects distribution. An explanation of the importance of the initial distribution, both in the extent and in the nature of growth, stems from the restricted access to credit facilities for the poorest (Bruno, Ravallion, Squire 1995).

These observations suggest that initial structural characteristics, specific to the various regions, play an important role in the dynamic analysis. The deciding factor determining whether inequalities increase or decrease is neither the rate of economic growth nor the actual level of development, but the type of growth. This now raises the problem of the benefit that the poor may derive from economic growth.

Table 2: Growth, inequalities, poverty

	Growth periods (88)		Recession periods (7)	
Indicator	Improvement	Deterioration	Improvement	Deterioration
Inequalities	45	43	2	5
Income of the poor[a]	77	11	2	5

Note: An improvement in the income distribution signifies that the Gini coefficient has come down; a deterioration means that the coefficient has increased. The sample covers 95 economies.

a. Income of the lowest quintile.

Source: Deininger and Squire (1996)

Deininger and Squire (1996) found that growth benefits the poor in the vast majority of cases (87.5%), especially where modest revisions in the inequalities were implemented in the countries. On the other hand, a recession often has a disproportionate impact on the poor. Ravallion (1997) studied 23 developing countries and concluded that strong initial inequalities tend to induce a lower rate in the reduction of poverty, whatever the positive rate of growth of the economy, and that they also reduce the negative impact of a reversal of growth on the poor.

The initial distribution thus influences the share of the average income growth allocated to the poor. In some cases, the inequalities can be significant enough for poverty to increase in spite of good growth results.

Finally, although growth does not affect income distribution one way or the other, as shown in the summary table above, the level of inequalities does affect growth. Countries with strong inequalities, like many in Latin America and Africa, have low rates of growth and remain non-egalitarian, whereas countries with low inequalities, such as some in East Asia, remain relatively egalitarian and quickly reduce their poverty level through the growth process (Birdsall, Ross, Sabot, 1995).

The observed evolutions of the different developing regions are in contrast, be it regarding the level of growth, or its impact on income distribution or poverty eradication. Nevertheless, various empirical studies conducted on a group of countries, or on one specific country make it possible to identify some essential structural elements that explain the persistence of inequalities, even if it often appears difficult to draw general conclusions from them since their distributive effects are occasionally contradictory.

Structural factors explaining inequality and/or poverty. The first element that appears decisive in explaining inequalities lies in the increase of the human capital of individuals provided by the educational system (Birdsall, Ross, Sabot, 1995, Bourguignon and Morrisson 1995). Strong inequalities necessitate policies of redistribution and reinforce budgetary orientations in favour of primary education. Although in East Asia public spending is no higher than in other developing regions, as a proportion of GDP, the budget share allocated to primary and secondary education is higher. In 1985, for instance, Korea allocated 10% of its education budget to higher education, whereas Venezuela devoted 43%; this explains, in part, Korea's superior educational performance in quantitative as well as qualitative terms, and its relatively egalitarian growth pattern. As a rule, countries whose populations benefit from a broad-based system of education and health appear to experience higher growth rates, which, in themselves, promote investment in human capital.

The more or less dual character of economies also makes it possible to explain inequalities between countries. Transversal studies covering several countries and analyses of the sectoral composition of a country's growth provide practical lessons to help redirect economic policies towards the fight against poverty. Since poverty

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mainly affects rural populations, policies that give priority to expansion of the agricultural sector can have a significant impact on poverty, both rural and urban, as seems to have been the case in India. Furthermore, it would appear that improving income distribution within sectors contributes more to the fight against poverty than phenomena of circulation or of migration between sectors (cases of India and of Indonesia). Besides, countries that have implemented agricultural reforms after the second World War and which, thanks to them, have succeeded in reducing inequalities in land ownership, have benefited from a higher growth rate than those countries that did not introduce reforms. In the published literature, regarding growth and inequalities, this argument is often proposed as an explanation for the success of several Asian countries, such as Korea or Taiwan, compared to the lesser performance of most countries in Latin America. A transversal analysis on a sample of 38 developing countries shows that land distribution explains 17% of the variance in inequalities between countries (Bourguignon and Morrisson 1995). Initial asset inequalities, deriving from land distribution, can be a more serious obstacle to growth than the income distribution itself (Deininger and Squire 1997)[5].

Finally, the structure of the labour market governs the distributive impact of economic policies as well as their successes against poverty. For instance, some transversal studies on Latin American countries show that an increase in the minimum legal wage goes hand in hand with a fall in poverty. However, many developing countries are characterised by the predominance of agriculture in the economy, as a supplier of incomes and of employment. This is the case with many sub-Saharan countries where agriculture remains the main source of income for the rural poor, in spite of the ever-increasing income derived from salaries and self-employment in the informal sector. Only a small fraction of the rural poor and of the non-poor is in salaried employment. Though legislation ensuring a legal minimum wage may help the most vulnerable workers, it is a political lever that is strongly identified with the urban workers (Lustig, McLeod, 1996).

The few elements listed above explain only in part the persistence of inequalities and of the noted regional differences. The unexplained variance remains important and leaves plenty of room to take into account national characteristics while seeking to understand the differences of income inequalities between countries.

III. Conclusion

We have seen that inequalities do not evolve much within countries. This is no doubt due to the relatively stable nature of economic structures that evolve over a long period of time only. For this reason, variations in national inequalities are marginal over time compared to changes in the differences of income distribution between countries. Nevertheless, inequalities are not static, as shown by the cases of Indonesia, China and Brazil where inequalities are characterised by substantial, even increasing, differences between sub-regions. Other distributive phenomena are also at work through economic policies.

Indeed, state intervention retains as its primary role the fight against inequalities and the scourge of poverty. Most empirical studies show that countries that give priority to basic human needs, such as health and education, do not only improve the well-being of their populations. In the medium to long term, these countries are likely to make progress in income distribution and in improving living standards.

The supposedly automatic mechanism whereby gains produced by growth should be diffused among the different segments of the population (the trickle-down effect) is not always present. A percentage of society has limited access, or no access at all, to resources or to the opportunities for production. Some sections of the population cannot benefit from gains in growth, hence the priority objective of "empowerment of the poor". It remains to be seen how such an objective can be reached. Deininger and Squire (1997) conclude from their analysis that accumulating new assets may be a more efficient way to combat poverty than implementing a strategy of redistributing existing assets. The state must intervene through appropriate public policies whenever market imperfections and social practices give rise to restricted access to credit or to employment, or indeed to any form of discrimination directed towards the poor.

5 The data used has been partly obtained from the FAO World Census of Agriculture, and covers 66 countries. It suggests that land distribution is more concentrated and is characterised by larger variations between countries than data about income. Thus, in India, Indonesia and Korea, Gini coefficients are close to 0.30 for income, but are respectively 0.63, 0.65 and 0.35 for land distribution.

Selectivity : Where are the guidelines ?

The World Bank has just published a report, *Assessing Aid* (November 1998), which should mark the aid and development debate for years to come. It defends, in particular, the idea of greater selectivity in the allocation of aid. This article introduces the main analyses of the report while placing it within the wider framework of recent literature about aid; it then offers a critique.

I. The quality of institutions and of policies is decisive for the effectiveness of aid

Assessing Aid delivers a message that is loud and clear : (i) the conditions for success in the poor countries depend above all on the nature of the policies implemented and on the quality of public institutions; (ii) because of this, the allocation and nature of aid must first of all depend on the institutional and political conditions of recipient countries. To be more precise, the World Bank analysis schematically considers three types of situations in recipient countries.

Situations where the quality of the policies and of the institutions is satisfactory. Aid is thus effective, but all would benefit if it were put at the disposal of the institutions more freely (not earmarked) and more widely. The donors should come to an understanding with the authorities of the countries concerned to finance a mutually-agreed overall public spending programme. The report indicates that there are a certain number of countries presently in this situation, these countries being among the poorest in the world.

Situations where the quality of policies is satisfactory, but where institutions are not efficient. Thus, the practice of giving aid to specific projects (or any other form of earmarked aid), as it is currently done these days is fully justified given such circumstances. It is then a question not to encourage the government to modify the contents of its strategic orientations, but to ensure an effective environment for a certain number of preoccupations that have priority.

Situations where both policies and institutions are deficient. In such circumstances, where aid flows have sometimes been very important, financing government programmes is not effective. It is also true that "money cannot buy reform", as has been widely attempted, whenever reforms do not correspond to a genuine commitment by the authorities. There is also no point in “cocooning” projects within inefficient institutions and a discouraging environment. Countries in this type of situation must nevertheless receive some support, but not necessarily in monetary form. Rather, aid agencies must promote improvements in the environment and institutions, through the circulation of knowledge, debates and thoughts, as well as the demonstration of innovations that can be easily reproduced, in a word “ideas”.

This differentiated treatment of categories of recipient country, according to the quality of their economic and institutional environment (one feels like saying according to their merit) is characteristic of the notion of selectivity which, for some years, has gradually asserted itself in the literature about aid.

II. From allocation according to needs to allocation according to merits

Empirical analyses about aid allocation traditionally advance three types of deciding factor in order to explain the flows that have been observed.

- A factor of need. A country receives all the more aid when its needs (level of poverty or distress, deficits, etc.) are important.
- A factor of (strategic) interest. Aid allocation can also be explained by preferences of donor countries, be they for political, commercial, geographic or cultural reasons.
- A factor of effectiveness or merit. Like private investment, aid is given priority either where the conditions of its effectiveness are best or to the most "deserving" beneficiaries, from a point of view of their strategy and effectiveness.

Up to now, this last factor seems to have played a marginal role. *Assessing Aid* notes that there are few links between the amounts of aid that have been granted and the quality of the policies followed by the beneficiaries. Up to now, aid allocation has essentially been a matter of the recipients’ needs and of the donors’ interests. The precept of selectivity consists precisely in replacing these arguments with logic of effectiveness and merit.

The Bank report, therefore, deplores the fact that aid allocation depends too much on considerations other than effectiveness, and that, for instance, factors such as being a small country or a former colony are considered more "attractive" than the pursuance of sound policies. The report stresses the gradual discredit affecting the logic of needs.

The concept of "need for external financing", cornerstone of development economics, is based on principles and tools that are today out of date[6], and has now lost some of its significance. The emphasis placed on the quality of institutions and policies puts the

6 Such is the hypothesis of a marginal constant return of capital and models of double deficit based on the models of the Harrod Domar type (See Easterly (1998).

importance of the level of public transfers in perspective. Indeed, the report notes that *"poor countries have been held back not by a financing gap but an "institution gap" and a "policy gap""*. The essential factor here is the quality rather than the quantity of spending.

The gradual weakening of the legitimacy of aid as the response to a financing gap now leaves room for the recommendation of legitimacy based more on effectiveness. This change rests on what is called the selectivity argument.

III. The selectivity argument

In recent years, the theme of selectivity has emerged, in the aid literature, as a focal point for four fields of study: macroeconomic aid effectiveness, criticism of conditionality, fungibility, and the differentiation of developing countries. The results of studies on each of these themes make up the architecture of the argument contained in the *Assessing Aid* report.

Macroeconomic aid effectiveness

For several decades analysts have endeavoured to measure the effect of aid on growth by the econometric analysis of data covering large samples of developing countries[7].

These studies have generally concluded in an absence of noticeable effects. At the same time, however, the validity of the results has been constantly criticised owing to several methodological weaknesses, in particular the endogenous nature of aid levels with regard to the economic performance of a recipient country.

Recent research by the World Bank[8], amply referred to in *Assessing Aid*, has altered the situation regarding the method and the results, thanks to a simultaneous equation model that answers the "endogeneity" criticism. This analysis introduces the effect of the quality of policies into the growth model and, especially, the linked effects of the level of aid and the quality of policies. The conclusions are that, in the general case, aid has no overall impact on growth but that, on the other hand, it has a significant positive effect whenever it is applied in an environment of good policies. Aid allocation according to needs is therefore pointless at best (since, on average, the impact is nil), and only selective intervention in "good" environments is effective.

A criticism of conditionality

With great lucidity, the authors of *Assessing Aid* have named one of their sections "*Ownership – What money cannot buy*". They note that "conditionality can fail to generate lasting improvements in policies". This analysis follows a great deal of literature critical about the effectiveness of conditionality[9], which observes that the imposition of conditions whose relevance is not felt by the benefiting institutions leads, at best, to reforms enacted to the letter rather than in the spirit intended.

Assessing Aid continues with the recommendation of the authors of this critique in favour of aid allocated according to an *ex post* assessment of the results as well as the commitment of the governments involved, but no longer upon an *ex ante* commitment linked to a programme. This restriction of the partnership to governments genuinely "committed towards development" would then lead to programmes decided by common consent and no longer to conditional programmes.

Fungibility of Aid

The analysis of the indirect effects of aid upon savings, taxation, investments and public consumption (or, in other words, macroeconomic fungibility) is a recurring theme of development economics[10]. The results obtained are, in general, rather mixed and specific to the cases studied. However, most authors agree that aid has an indirect effect on the growth of public consumption, even when this aid is allocated to other ends (in particular, investment).

The interest in the sectoral fungibility of Aid is more recent. Here again, results are mixed. But, overall, analyses lead us to think that fungibility is sufficiently important to question the relevance and the effectiveness of earmarked aid and, in particular, of project aid. Donors who finance projects are partly the victims of a mirage : "*What you see is not what you get*" reminds the report.

Analysts generally see an exception to the strong fungibility of Aid in the case of poor countries that receive a high level of aid[11].

Within this context, aid goes to finance projects that would not have been started without it, and it is thus hardly fungible. But these projects may very well be imposed by donors, rather than be chosen by the benefiting institutions. The report presents this dilemma in the following manner : either aid finances what the government wishes to do, in which case it is fungible, or it finances what the government might not have wished to do, in which

7 See Tsikada (1998) for a recent review of these studies.
8 Burnside and Dollar (1997).

9 Notably for the most recent Mosley (1995), Berg (1996), Killick (1996), Collier Guillaumont, Gunning (1996), Collier (1997)

10 See White (1994) for a synthesis.
11 For example, Boone (1996).

case it is then ineffective[12]. The only way out of this dilemma is, once again, to finance a mutually-agreed overall-spending programme.

Differentiation of developing countries

Differentiation of the recipient countries was one of the main themes of the last report from the World Bank on Africa (1995). This theme is put forward once again in this report by reminding us that some countries are quite successful and must be generously helped financially, whereas other countries get bogged down and must receive support more in the form of "ideas" than through monetary transfers.

Behind this is the idea, bluntly expressed by Collier (1997), that examples of successes constitute the best form of incentive : "If emulation of neighbours is the main motor which good policies will spread across Africa, then the pace of emulation will depend on a phase of strong differentiation. That is, Africa needs a few spectacular successful countries that become the envy of their neighbours. The role of the donors in this process is thus to accentuate the effects of policy differences by concentrating aid in the good policy environments".

IV. A bombshell ?

Assessing Aid is undeniably a courageous and reforming study. It resolutely takes sides in favour of a respect for ownership and assumes the consequences of such a choice : "*The safest assumption for donors is that they are, more or less, financing whatever the government chooses to do. Since donors are financing government in general, they need to consider all public expenditures, in terms of both allocation and efficiency, when deciding the appropriate level and method of aid*".

The report constitutes a healthy reaction to the present, manifestly abnormal situation where aid is not given as an encouragement to "do well", that is to say adopt sound policies and create effective institutions. In this respect the report lucidly condemns the donors' method of allocation, especially bilateral, which is widely affected by clientelism. But it is also strongly critical of the present action by the World Bank, notably through its criticism of conditionality or the practice of "cocooning" projects[13].

It is possible, however, to view this report more as a plea for selectivity than as an exhaustive analysis of the stakes about aid. The document seems often to follow a single line: all the arguments, often sound, in favour of selective allocation, are duly developed but, on the other hand, the weaknesses of the argument are not mentioned: the difficulties that would be raised by this suggested change in practice are not evoked.

V. A one-sided examination of the question

The weaknesses of the argument

The argument developed in the report is based on scientific output that is both plentiful and qualified. It is not, however, free from weaknesses and counter arguments. This is, for example, the case for the econometric study of Burnside and Dollar, recently called into question by researchers who, working from the same data[14], reached opposite conclusions. If the result of the lack of effects of aid cannot be established for the general case, this means one pillar of the entire reasoning collapses since it is no longer possible to exclude the validity of aid allocated according to needs by putting forward its utter sterility.

The lack of consideration of the long term is striking throughout the report. Burnside and Dollar's analysis searches for the effect of Aid over 4-year periods by simultaneously studying growth and aid. They are therefore limiting themselves to observing the impact of macroeconomic aid, such as for balance of payments. Yet, their analysis and their conclusions cover aid as a whole, including aid for health or education among many other examples. Overall, human capital is absent from the analyses of the report. The qualities of the policies and the effectiveness of public spending are considered to be the only decisive factors to be examined by donors.

On this point, it is unquestionably possible to criticise the report for an excess of "governmentality". Countries, not individuals, are the sole objects of the analysis and, within these countries, governments are the only interlocutors. The report appears to consider that aid owes nothing and can do nothing for individuals belonging to badly-governed countries. This presupposition stems from the observation of a lack of effect from aid in deficient environments, whose fragility we have just seen. On occasions, we seem to have gone back more than ten years in time, when there was a monopoly in the State-donor relationship. Haven't we anything more to learn from over ten years of practising diversified co-

12 With the mentioned exception of the case where the project in itself generates enthusiasm and where appropriation is then possible.

13 Which affects all the donors at the same level.

14 Hansen and Tarp (1998) question all the conclusions of Burnside and Dollar by slightly modifying the methods used (for example, by adding fixed effects per country).

operation which, among other things, is now open to civilian actors ?

Problems avoided

It is well demonstrated that more selective practice may be an answer to a great many of the difficulties met today in the world of co-operation. On the other hand, the new problems that might be caused by implementing this practice are, in the main, concealed.

The first question we must ask ourselves is whether selective aid allocation can be implemented. To express a preference for an ex post selection over an ex ante conditionality is one thing. But on which criteria should selective allocation be based ? The report does not tackle this question[15]. It constantly refers to good policies and good institutions without giving keys to these concepts. Must we base our argument on results, whereby countries benefiting from favourable conditions will have an advantage, or should it be based on commitment or merit, and then how do we isolate and assess this last factor in the proven performance of countries ? Must we limit ourselves to purely macro-economic criteria, or should we judge the overall action of the government, or even further, should we introduce political criteria? Assuming that we could overcome difficulties concerning the definition of criteria, the idea of the rich countries rating the poor in order to give aid based on reward assumes a somewhat unpleasant dimension.

The second major question surrounds the equity of allocation and the judicial redistribution of aid. Once more, this subject is omitted, no doubt since it considers, yet again, that the affirmation of a zero impact in the absence of good policies is sufficient to settle the question. This policy of “good examples”, as presented by Collier, deliberately sacrifices equity in the name of effectiveness. Naturally the poorest countries are also those which, on average, have the most fragile policies and institutions[16], and there is inevitably a tension, which incidentally happens to be very well-known, between the redistributive and incentive modes of the fight against poverty. At the very least, this tension deserves to be mentioned.

Other points can also be mentioned to illustrate this tendency to dodge the issue that appears throughout the report.

It may appear normal for bilateral supporters to castigate aid allocation that favours countries that hides shameful or unfair objectives (political collusion, underhand commercial practices). We can also imagine that taxpayers in donor countries give a different weight to the individuals who receive aid according to the region or country of the world where they live. Is this practice reprehensible?

The report calls for the concentration of aid towards a certain number of privileged recipients. One can wonder about the perverse effects of such massive aid in these countries. Furthermore, the ambiguity and subjectivity of the allocation criteria, combined with the number of donors involved, risks leading to a "sheeplike" phenomenon of infatuation and withdrawal (which, surely, are hardly desirable) towards some countries, as each donor takes into account signals given by the others (as private investors do).

The word debt is not mentioned once in the report. Debt repayment is nevertheless a constraint that could rehabilitate the concept of financing need. It is said that contributing ideas was more important than contributing money in countries where institutions were deficient. At the very least, the case of debt is an exception. Conditionality was also (some would say especially) a debt management tool. How then is it possible to insist on debt reimbursement by the poorest countries given a selective and non-conditional orientation?

VI. Political time-bomb or damp squib? A certain lack of pragmatism

The questioning of conditionality, of the concept of financing gap, of project aid and of aid unlinked to incentives in the overall allocation by donors could prove to be a political time-bomb, given the present co-operation scene.

The present context of the drop in aid encourages the concentration of efforts by donors. There is already a marked trend towards helping a small number of countries that present favourable conditions while not investing in those countries where conditions for success are obviously not present. This “collective pressure” by donors could create positive incentives.

But most recipient countries are neither good nor bad examples and, in a way, the *Assessing Aid* report seems to stop half-way. Internal constraints of aid agencies are hardly taken into account. Existing instruments that could meet the new suggested orientations, such as sectoral investment programs, public expenditure reviews and civil service reforms are already under fire from critics[17]. As a rule, aid has not demonstrated a great capacity to strengthen institutions, an area considered to be essential. The concrete problems that may follow from the analyses are hardly mentioned. Questions raised about current practices are salutary, but the alternative that is offered is only outlined. One could say that the guidelines for selectivity are yet to be drawn up.

15 The study of Burnside and Dollar bases its index of quality of the policies on three criteria : inflation, budget deficit, and openness to trade.

16 As shown in the studies of the World Bank (Easterly 1997, Alesina 1997)

17 See Berg (1998).

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