

# Swedish Aid for Poverty Reduction: A History of Policy and Practice

Jerker Carlsson

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# **SWEDISH AID FOR POVERTY REDUCTION: A HISTORY OF POLICY AND PRACTICE**

**Jerker Carlsson**

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**Overseas Development Institute  
Portland House  
Stag Place  
London SW1E 5DP**

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# Contents

|     |  |    |
|-----|--|----|
| 1.  | Introduction   | 4  |
| 2.  | The evolution of Swedish aid policy                              | 5  |
| 2.1 | 1960s: the development decade                                    | 8  |
| 2.2 | 1970s: the basic needs decade                                    | 12 |
| 2.3 | 1980s: the decade of structural adjustment                       | 17 |
| 2.4 | 1990s: capacity building and poverty reduction                   | 19 |
| 2.5 | Summing up: '... to raise the standard of living of poor people' | 22 |
| 3.  | The practice   | 24 |
| 3.1 | The distribution of Swedish aid                                  | 24 |
| 3.2 | The effectiveness in reducing poverty                            | 41 |
| 4.  | New guidelines for poverty reduction                             | 44 |
| 5.  | The future management of Swedish aid                             | 51 |
| 6.  | Concluding reflections   | 55 |
|     | References   | 59 |

## Figures

|   |  |    |
|---|--|----|
| 1 | Trends and fashions in development aid | 7  |
| 2 | Total Swedish aid, 1962–95             | 25 |

## Tables

|   |  |       |
|---|--|-------|
| 1 | Total Swedish aid according to region, 1994/95 (000 SEK)   | 26    |
| 2 | Human development and per capita income in selected recipients of Swedish aid                              | 30–31 |
| 3 | HDI and PCI across the world 1992  | 32    |
| 4 | Sectoral allocation of Swedish aid disbursed by SIDA, 1990/91–1994/95 (%)                                  | 35    |
| 5 | The sectoral composition of Swedish aid to 13 programme countries, as distributed through SIDA 1994/95 (%) | 38    |
| 6 | Sector allocation of Swedish aid to Tanzania, 1984/85–1994/1995 (%)  | 40    |

## 1. Introduction

The purpose of this paper is to give an overview of Swedish aid policy and its poverty orientation. The paper starts with a historical account of the evolution of Swedish aid policy, as it has been formulated in various Government Bills and White Papers since the inception of Swedish aid in the mid-1960s. Aid policy formulation does not take place in a vacuum. It is a process influenced by internal considerations, such as experience and feedback from the facts of aid, as well as events external to aid itself. It is therefore useful to outline the external context within which Swedish aid policy has been formulated.

This historical account is followed by a look at how well policy has been put into practice. This issue is approached from two perspectives. First, by looking at the strategic implementation of the policy, which is done by examining the composition of the aid portfolio in terms of the allocation of resources to various sectors and countries. Secondly, by looking at the effectiveness of the chosen strategy. How well does Swedish aid succeed in meeting its set objectives? The answer to this question also provides some insights into the existing feedback loops within the aid system – the extent to which policy formulation has been guided by a feedback of knowledge from the experience of various aid projects and programmes.

Poverty reduction is currently high on the agenda in the Swedish debate on development aid. SIDA has recently prepared a new set of guidelines for poverty reduction, which are intended as guidelines for all departments within SIDA and should ideally influence their work. Given these high ambitions it is relevant to present the new guidelines in some detail, to give the reader an idea of the future of Swedish aid. In connection with this I shall also present the main features of the new programming system, which is intended to form the backbone of the strategic management of Swedish aid.

The paper ends with a summary discussion of the effectiveness of policies for poverty reduction in terms of producing aid programmes that will make a contribution towards that end.

## 2. The evolution of Swedish aid policy<sup>1</sup>

Swedish aid has been fairly consistent in terms of policy during the last thirty years. There has always been a focus on poor countries and poor people running like a thread through the different objectives of the aid programme. At times poverty has had to give way to other policy issues but, seen over three decades, it has remained a dominant theme in the aid programme. There has also been a remarkable political consensus behind Swedish aid policy. Poverty criteria have remained uncontested in the political debate on aid in the Swedish Parliament. The Social Democrats, the Communists, the Centre party and the Liberals, have been in agreement as to the level and policy orientation of Swedish aid. The odd man out has at times been the Conservative party. The Conservatives have never really considered development aid to be a particularly important political issue, at least not important enough to make it a centrepiece of Swedish political debate. Nevertheless, they have from time to time challenged both the level and orientation of Swedish aid.

The Budget Bills are the main policy documents by which the government sets out the orientation of Swedish aid. It is rather difficult to describe them. On the one hand, they are quite technical, with precise instructions. On the other hand, they are also political documents, which normally means statements suitable for election campaigns. They can also have a broad historical, analytical approach, in which it is possible to find a theoretical awareness not normally associated with government bills.

Since 1962 six Budget Bills have been of particular importance as policy documents:

- 1962:100 is the first Budget Bill to outline the general policy guidelines, the motives for, and the objectives of Swedish development aid.
- 1968:100 builds on the theme of 1962:100, but also establishes a timetable for how the so-called 1% of the GDP target is to be reached, as well defining it.

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<sup>1</sup> This section draws considerably on two sources: Ehrenpreis, 1995 and Casparsson and Wallgren, 1997.

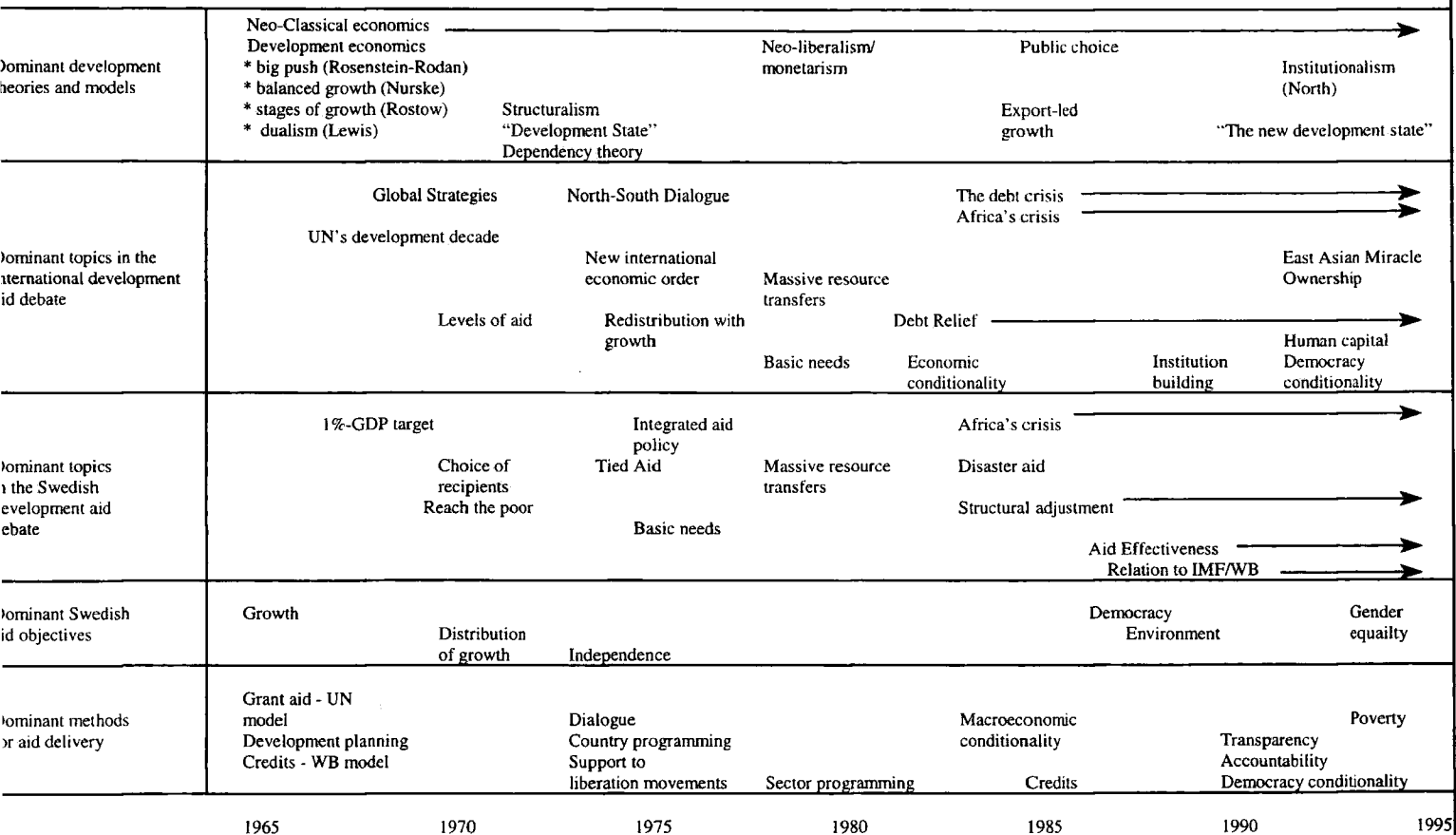
- 1977/78:135 was based on a report by a Parliamentary Commission. It is the first Bill to formulate the objectives of Swedish aid in a clear and comprehensive way. It also provides further strategic guidelines for Swedish aid.
- 1987/88:100 proposes a fifth objective of Swedish aid – the effective utilisation of natural resources (the environmental objective).
- 1992/93:244 is mainly concerned with the effectiveness of aid and particularly the effectiveness of aid administration. It proposes a transformation from management by objectives to management by results.
- 1995/96:153 introduces a sixth objective. Swedish development aid is to contribute to equality between men and women (the gender objective).

In spite of the apparent stability in policy and objectives, there have been changes in emphasis which are of significance as they have sometimes had an impact on aid strategy. Such changes did not occur in a vacuum. On the contrary, the Swedish aid debate has always been strongly influenced by external events. Dominant development theory paradigms, the economic and political situations in developing countries and the political and economic situation in Sweden, are all significant external factors exercising a strong influence on the way policymakers think about aid policy and practice.

Figure 1 is an attempt to illustrate the major trends and fashions in development aid over the last thirty years. The purpose of the matrix is to locate Swedish thinking on development aid within an international context and thus provide a background to the development of Swedish aid policy. This context consists of two parts: first, different theoretical paradigms and models which exercise an impact on the policy and strategy formulation of aid; secondly, the international development debate, in which issues relating to global development, modes of delivering aid and aid strategies are discussed. This is a debate which takes place to a very large extent within the international aid community itself, but sometimes also attracts a more general public interest. I shall relate trends and fashions in the policy and strategy of Swedish development aid to international events in three ways: by identifying first the dominant topics in the national aid debate; secondly, the dominant objectives of Swedish aid, and, third, the most popular methods for aid delivery and the approach to aid dialogue.



**Figure 1. Trends and fashions in development aid**



When analysing Swedish aid policy it is important to discuss both bilateral and multilateral aid. Sweden has traditionally channelled a considerable amount of its total aid through multilateral organisations. These channels are more controversial now than they were in the early 1960s. The critique has focused on either too little interest in poverty reduction or too much organisational inefficiency. The UN organisations have been under heavy attack for their lack of effectiveness. The Bretton Woods institutions – the World Bank and the IMF – on the other hand, have been accused of a limited interest in poverty issues. From the perspective of effective aid for poverty reduction, it is therefore important to relate the Swedish position towards multilateral aid in general and these institutions in particular.

I shall now briefly run through the history of Swedish aid policy/objectives/strategy and recount some of the more interesting changes that have taken place. I have chosen a chronological organisation for this chapter, not because of any analytical advantages, but simply because I found it a convenient way of organising the material. In the following sections I shall look at each of the major Budget Bills listed above.

## **2.1 1960s: the development decade**

The 1960s were characterised by a belief in the future and development optimism. Western Europe and the United States experienced high levels of growth. Even in the South there was significant growth and development. Irrespective of development strategy it was possible to find countries which had succeeded and some countries were described as economic miracles. (see de Vylder, 1985:5). Within the South the newly independent states, especially in Africa, received a lot of attention. The countries in the North began to be increasingly involved in their development. This interest soon became institutionalised in the form of development aid. Former colonial masters as well as countries with no colonial legacy established bilateral aid relations with countries in the South. Multilateral institutions for the same purpose were also established.<sup>2</sup>

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<sup>2</sup> Within the World Bank Group, the International Development Association (IDA) was formed in 1960. The OECD countries formed the Development Assistance Committee (DAC) in 1961 and the United Nations Development Programme (UNDP) was established in 1966, following a reorganisation of the UN system.

During the late 1950s and early 1960s, development theories were largely contained in a modernisation paradigm. Development meant modernisation of backward societies along Western lines. During this decade development thinking was centred on economic growth, with a macroeconomic orientation. Mainstream economists found the causes of underdevelopment in underemployment and late industrialisation. Neo-classical economics remained a theoretical foundation for most of these approaches. Development required modernisation and in order to achieve it a push was needed, a 'push' which has been described by several researchers by metaphors such as: 'big push' (Rosenstein-Rodan, 1964), 'take-off' (Rostow, 1960), 'great spurt' (Gerschenkron, 1962) and 'minimum critical effort' (Leibenstein, 1957).

Alternative development scenarios were not really considered. The dominant theories focused on the lack of necessary resources for achieving growth. Aid was justified as a means of filling these gaps. The modernisation paradigm was influential and high hopes were attached to the role of bilateral as well as multilateral aid institutions. Assistance for infrastructural investments, together with increased trade and industrial investments, would give the necessary boost to the economy to trigger off growth and social development. Growth would benefit everybody through the 'trickle-down' effect. Furthermore, Keynesian macroeconomic policies, with a subsequent important role for the state, were quite influential in developing, as well as developed, countries (Stokke, 1996:33, 34, 76).

Sweden fitted well into the dominant trends and fashions of the 1960s. There was a rapidly growing interest in global issues. Traditionally this had been channelled through Sweden's support of the United Nations. Now it developed further and bilateral links with the South received greater attention. Intellectually, Sweden was not far removed from the main international currents. Modernisation was high on the agenda, as was the belief in the state as a prime mover behind development. It was in this context that development aid came to the forefront as a new and important activity for Swedish foreign policy. Swedish official assistance to poor countries had been minimal before the 1960s largely the preserve of voluntary initiatives, often through missionaries.

In 1959 a report was submitted by the Central Committee for Swedish Technical Assistance to Less Developed Countries – 'Sweden Helps – A Programme of Action'. It focused on technical assistance as an aid to self-help. Aid was motivated by reasons of solidarity and social fervour, etc. Poverty was not directly mentioned, but was clearly implied. When discussing country selection, the report identified criteria such

as absorptive capacity, compatibility of interests, etc., but poverty did not appear as a criterion in selection (Ehrenpreis, 1995:1)

Three years later, these recommendations came to form the foundation of the budding Swedish aid policy. The 1962 Budget Bill stated that the objective of Swedish aid was to raise the living standards of poor people. In concrete terms, this meant the eradication of starvation and mass poverty, which was to be accomplished through a process which would enable the poor to help themselves. The poverty focus was motivated by the realisation that peace, freedom and welfare are not exclusive national concerns, but are universal and international qualities (Government Budget Bill, 1962:100, p.5). By this means Swedish aid had been given an explicit poverty objective. The Budget bill specified what raising the living standards of the poor meant, and how it was to be achieved:

- eradication of starvation and mass poverty;
- elimination of epidemic diseases;
- reduction of infant mortality;
- create of the prerequisites for decent living conditions.

The means to accomplish this was first and foremost by investing in increased human knowledge and capacity. Upgrading and modernising of production equipment and structures were also considered important. Only through economic growth could the resources be generated by which poverty could be eradicated. In 1962 Sweden clearly preferred multilateral rather than bilateral aid channels. The reason was that:

Multilateral aid generally possess the considerable advantage of being based in an international organisation, of which the recipient country is a member and has a vote. Development aid thereby loses its national identity and any possibility of national dependency relations is excluded (ibid.:18).

Multilateral aid was also seen as more effective, given the possibilities for co-ordination that existed within international organisations. Through its focus on the UN system it was also well aligned with traditional Swedish foreign policy objectives.

The Budget Bill noted, finally, the importance of analysing situations of underdevelopment in order to understand the development process correctly. Lack of knowledge about the conditions and determinants of development in the developing world was identified as a weakness. Underdevelopment, the Budget Bill went on to specify, can only be understood in its specific historical-sociological context. It would therefore be important to go beyond Western values and historical experiences when analysing underdevelopment. Strategically, the implication was that aid had to be subordinated to the efforts and policies of the developing countries themselves.

The Budget Bill of 1968 was firmly based on the policy foundation laid down in 1962. The moral obligation to help the poor and needy was underlined. The manifestations of poverty were the same as before: lack of food, too high a population, too low a level of education, etc. The same remedies were also prescribed: improved education, economic growth, industrialisation, increased democracy, national independence, with perhaps a stronger emphasis on economic and social equalisation than before. In more concrete terms there was a shift away from a direct poverty focus to issues such as population policy, family planning, land reform, training, etc. The Bill also advocated support for international commodity agreements and tariff preferences for developing countries. The main content of the Budget Bill was a timetable for reaching the so-called 1% of GDP target. The plan was to reach the target in seven years by increasing the aid budget annually by some 25% (Budget Bill 1968:100, Proposition 1968:100). The multilateral channels were once again a preferred means of resource transfer.

From the beginning, Swedish aid was organised in the form of projects. Towards the end of the 1960s a shift began towards larger programmes of a national or regional nature. Examples were the integrated rural development programme CADU in Ethiopia, various national family planning programmes and regional rural water supply schemes. Credits for infrastructural projects and import support were also introduced by SIDA, drawing on the experience of the World Bank.

Swedish aid policies during the 1960s no doubt reflected the optimism of the times. The Budget Bills were characterised by what Stokke (1996) and Pratt (1990) call 'human internationalism', as they emphasised the moral duties of the North and international solidarity. But underdevelopment was not a concern limited to the underdeveloped countries alone. It was very much a global issue. Poverty which affected around two-thirds of the world's population was not in the interests of the North. Development aid was therefore in the interests of the international community as a whole. For Sweden this meant that aid naturally became a part of foreign policy.

Swedish thinking was strongly influenced by the modernisation paradigm. Underdevelopment was seen as a complex problem and three aspects in particular needed to be addressed: poverty, unequal trade relations and the population explosion.<sup>3</sup> Trade expansion and a transfer of knowledge and capital were the preferred means for bringing the poor countries back on to their feet again. It was against this background that poverty became the principal goal of Swedish aid. This did not mean that the concept of poverty was extensively discussed in the major policy documents of this period. There were equally vague ideas about who the poor were, what signified a poor country, etc. Poverty was defined by how it expressed itself: in starvation, epidemic disease and high infant mortality.

## **2.2 1970s: the basic needs decade**

The development optimism which had been so characteristic of the first development decade was by now gradually vanishing. The development of the South had been disappointing. The 'trickle-down of growth' had not materialised as expected. At the same time the gap between North and South had widened even further. The impact of the oil crisis and the massive accumulation of debt were particularly difficult for many developing countries. The situation of the poor, and especially the poorest of the poor, seemed to have worsened. It would appear that aid had made very little difference to their living conditions.

It was against this background that development thinking was gradually beginning to challenge established doctrines. Mainstream development economics, and the modernisation paradigm, began to be challenged by neo-classical and neo-marxist economists. The focus shifted from economic growth to the more social dimensions of development. This then opened up the opportunity for alternative development theories to have an impact on the shaping of aid policy.

Structuralism and marxism were influential in shaping the development model of various neo-marxists such as Baran (1957), Frank (1967) and Wallerstein (1974). Common to them all was the view of the world in which the different parts were functionally linked to each other in a hierarchical international division of labour. A surplus transfer was seen as taking place from the periphery of the world to its core.

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<sup>3</sup> Structuralists like Gunnar Myrdal, Raul Prebisch and Hans Singer exercised a considerable influence on development thinking in Sweden at this time.

This was the root of underdevelopment. It is in this theoretical environment that the dependency school was born. Dependencia, in all its various shapes and forms, would come to exercise a large impact on the debate on development, or rather the underdevelopment of development, during the 1970s. Restructuring the world order thus became an important issue for breaking away from the process of underdevelopment. The alternatives varied from total autarky towards calls for a New International Economic Order (NIEO). Most countries in the South favoured the second option. The demands from the South opened up the North–South dialogue (itself a sign of the South's stronger position in the international development debate).

From the mid-1970s the 'basic needs' concept dominated the aid debate. The concept can be seen as the developed countries' response to the call for a NIEO. Basic needs were perceived as less challenging to the prevailing power structures of the world economy. They meant a focus on human development and basic needs. Aid strategies were subsequently redirected from a project orientation towards strengthening the capacity of recipient countries to satisfy their own basic needs. The influence of the basic needs paradigm and its bottom-up perspective had led to a reorientation in the way aid was delivered.<sup>4</sup> During the 1960s aid was predominantly linked to projects financed and to a large extent managed by donors. In the 1970s the project mode of delivery was gradually superseded by different sectorial approaches. It was argued that this would increase the recipient countries' control over the planning and management of aid (Stokke, 1996:93). The emphasis was on sectoral choices and project design rather than country selection and structural reform policies.

The main effect of this policy shift towards basic needs and equalisation was a strong rural emphasis in several country programmes and within sectors such as health and education. In SIDA's 1973 Budget petition it was stated that the lowest income groups required increased attention. The priority should be to improve the planning and implementation of projects aimed at raising the living standards of the lowest income groups and areas. The neglected groups also received increased attention in SIDA's country analyses and country programmes. Swedish assistance must be aimed at co-operation which will constitute a direct attack on poverty and its causes. It must reach the poorest and most disadvantaged groups (Ehrenpreis, 1995:12). Co-operation with recipient countries and voluntary organisations became important for targeting the poorest groups.

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<sup>4</sup> There was a strong influence from international thinking, for example the 1976 ILO report – *Employment, Growth and Basic Needs* (Chenery, et.al, 1974).

In Sweden there were at this time slightly different views on the best approach. The Department of International Development Co-operation in the Ministry of Foreign Affairs suggested an emphasis on selecting countries according to the criteria of egalitarian structural reform policies. This was in line with the international trend favouring country programming as a planning technique. Parliament, on the other hand, tended to favour SIDA's position that a more targeted approach was more effective: aid projects in agriculture, water supply, health, school building and vocational training.

During the 1970s aid was allocated to countries that were directly or indirectly pursuing radical economic and social policies – 'the country became the project' (Ljunggren, 1986). This did not remain uncontested in the domestic debate. The non-socialist parties opposed aid to certain countries, Cuba being perhaps the best example. When the Social Democrats lost power in 1976, the country portfolio came up for review. The outcome was not very drastic; most of the previous recipients were retained (which can be taken as an indication of the strong political consensus that existed). Cuba was dropped from the list, however, but so was Tunisia. Officially this was not motivated by political reasons. Instead it was argued that neither Cuba nor Tunisia belonged to the group of least developed countries: hence neither was eligible for Swedish aid. The principle of choosing recipient countries according to the degree of their compliance with Swedish development policy priorities culminated in the 1980s with SIDA's country review exercise, which aimed at reducing the number of recipients. The groups had to be concentrated in order to achieve greater efficiency.

Ever since 1962 the overarching goal of Swedish aid had been to raise the level of welfare of the world's poor people. Four other 'sub'-objectives had also existed, but they were never explicitly defined as objectives until the Budget Bill of 1977/78. The ground had been laid by the work of a Commission on Development Co-operation Policies which presented its report in 1977.<sup>5</sup> The Commission found that solidarity with poor countries was a sufficient motive for Swedish aid. Solidarity was in fact superior to any other reason/motive for aid. The Commission reiterated the general objective of: '...raising the standard of living of poor peoples.' (SOU, 1977:13). In order to achieve this objective, it proposed that four, more operational, objectives should be introduced to guide the design and direction of Swedish aid. They were: (i) economic growth; (ii) economic and social equality; (iii) economic and political independence; and (iv) the democratic development of society.

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<sup>5</sup> The Commission represented all five parties in the parliament, which at this time had a non-socialist majority.



None of these objectives were new to Swedish aid. What was new, however, was that they were now explicitly recognised as objectives crucially linked to the achievement of the overarching goal of 'raising the standard of living of poor people. This introduced a new problem – that of clarifying the relationship between the four objectives. The Commission was clear on this point. Economic and social equality should be given priority. But it was important to recognise that economic growth was a precondition for the achievement of all the other objectives.

In the Budget Bill of 1977/78, the government largely followed the recommendations of the Commission. It confirmed the proposed objectives, which together 'would promote justice for poor people'. In contrast to the Commission, however, it found all the objectives equally important, and was not prepared to give any of them priority. Nevertheless, it is possible to see some sort of prioritising in the Bill.

The first objective – economic growth – received a lot of attention in the Budget Bill. It is difficult to avoid the impression that it was seen as determining the likelihood of achieving the others. Improving the conditions for economic growth was seen as the best strategy for improving the lot of the poor. The Bill does not discuss in any detail how this should be done. The link between economic growth and poverty reduction was simply assumed without any further qualification.

An important factor with regard to the achievement of poverty reduction is the development strategy pursued by the recipient country. The Bill notes that it is vital that the development strategies of the recipient countries should genuinely emphasise equality and poverty reduction, in order to ensure that Swedish aid really reaches the poor. When assessing a development strategy, it is the recipient country's concrete actions that count. The type and nature of the political system were seen as much less important. Although the democratic development of society was an important objective of Swedish aid, democracy should not be equated with the multi-party system. The concept of democracy must be given a much wider interpretation. It was also pointed out that much more important than issues of democracy and political systems, was respect for human rights, which was regarded as a particularly important criterion in the selection of recipient countries. As in previous Bills, it was pointed out that it was up to the recipient to decide how the aid was to be used. This position does not prevent the donor government from identifying areas considered especially important and worthwhile: women, co-operatives, employment and industrialisation. Industrial collaboration and trade were also dealt with in some depth. It was also mentioned that environmental protection is an important concern for Swedish aid.

The volume of Swedish aid had by now begun to reach respectable proportions. This was also the first Budget Bill in which one could detect concern about the effectiveness of aid. It was stated that effectiveness should be measured against set objectives. Furthermore, it was the recipient countries that were to be responsible for the evaluation since they bore the main responsibility for the utilisation of aid.

The end of the 1970s was an important period for Swedish aid policy. The Budget Bill of 1977 reflected the dominant topics in the international debate. The Bill was drawn up by a Liberal/Conservative government, but this did not lead to any changes in general policy orientation. The solidarity motive remained unchanged.

A difference was that aid had become more tied than during the 1960s. This was in line with traditional demands from Swedish industry. In 1972 the government decided that a portion of total aid should be tied to the procurement of Swedish goods and services.<sup>6</sup> The change was justified on the ground that aid was not tied to specific goods and services. This practice was later more or less abandoned since studies showed that even in the absence of tying there was a respectable return flow of 40–50% to Sweden. Instead, the interests of Swedish industry were met by institutionalising the practice of tying. Specialised agencies such as the Swedish Fund for Industrial Cooperation with Developing Countries (SWEDFUND) and the Agency for International Technical and Economic Cooperation (BITS) were created as instruments for tied aid, soft credits and aid to the private sector (Johnston, 1966:22,24).

Towards the end of the 1970s, the situation in the most important recipient countries, notably in Africa, had begun to deteriorate. A development strategy based on a state-led basic needs approach had shown itself more or less incapable of generating the necessary growth dynamics in the economy. It had resulted in budget deficits and imbalances in the external accounts. Internally generated problems were aggravated by a worsening international economic climate, i.e. rising high inflation and high real interest rates. Adjustment became the key word and came to dominate policy and strategy formulation during the coming decade.

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<sup>6</sup> In 1972 8% of aid was to be tied. The percentage rose and remained at around 14–20% for the rest of the 1970s (Jacoby, 1986).

## 2.3 1980s: the decade of structural adjustment

From the mid-1970s onwards, new models and thinking had come to the fore. Neo-liberalism/monetarism had made an important impact on development policy, particularly in Latin America. Although heavily contested, it contributed to a reorientation of development thinking away from models of 'state-led growth' towards models emphasising 'free market forces'. The aid debate during these years reflected these issues – the debt crisis, the African crisis, structural adjustment. Serious doubts began to be raised about the effectiveness of aid, and there was a shift in aid policies, in Sweden as well as internationally. The supremacy of the conditions for growth was established; basic needs could best be satisfied in a country where the economy was able to generate resources and income for its people.

The Bretton Woods institutions assumed the lead in demanding structural reform of policies and institutions in the recipient countries. This emphasis on what Stokke calls 'first generation conditionalities' meant that, for example, in the case of Sweden, aid abandoned the long-established principle of not intervening in the political and economic systems of recipient countries (Stokke, 1996:52). The climate also became harder for the recipient countries in the sense that their, at least theoretically, high freedom of planning and managing aid within the country frames came under question. Accountability became a frequently used catchword. According to Ehrenpreis (1995), however, the support of structural adjustment programmes did not imply any weakening of the basic strategy of directing aid towards poverty reduction. Crisis adjustment meant redirecting aid in order to soften the negative effects of structural adjustment on social conditions.

The perceived need for adjusting policies and structures in many recipient countries led to a change in the focus of Sweden's aid programme. Agriculture, infrastructural and industrial rehabilitation, and the maintenance of social safety networks became important areas of concern for Swedish aid. The rapidly accumulating debt and related balance-of-payments problems were other areas which received a lot of attention. Traditionally, such macroeconomic issues had not been a major concern of Swedish aid. Now they began to adopt an important role and soon came to dominate the policy scene and to exercise a strong influence on strategic thinking.

The focus on macroeconomic policy issues was seen as consistent with the basic objective of poverty reduction. Creating the conditions for efficient production within agriculture, and for that matter industry as well, was consistent with supporting the

poor. Sweden's approach to the development of the agricultural sector illustrates the change. The focus was now on agricultural policies and issues such as pricing policies, market structures and policies, subsidies of inputs, etc. Proper management of short-term economic problems was essential for stable long-term development. Thus, the objective of economic growth was seen as the major instrument for achieving poverty reduction. At the same time, Sweden maintained its support of more long-term-oriented programmes such as soil conservation. In 1980 SIDA produced its Rural Development Strategy and from 1982 rural development took over as the single major area of sectoral support.

In a short-term perspective the impact of structural adjustment on social welfare had been found to be negative. Much of what existed in Africa in terms of social safety networks had for a long time been financed by increased internal and/or external indebtedness. Bringing the budget deficits in line clearly curtailed the possibility of the government being able to satisfy the basic needs of its people. For Swedish aid which had traditionally been heavily involved in social sector development, the task now became one of helping to preserve a basic level of social services during a period when countries gradually adjusted their economies.

The Budget Bill of 1987/8:100 did not propose any changes in the traditional policy orientation of Swedish aid. A focus on the poorest developing countries remained a priority, as well as on the poorest of the poor in these countries. What was new, however, was the proposal of a fifth 'environmental' objective. The 1980s had seen an increasing international awareness of environmental issues. The Brundtland Report perhaps represented the main currents of the international debate. Environmental concerns had also assumed an important position in the domestic political debate in Sweden. The establishment of an 'environmental objective' for Swedish aid was therefore neither surprising nor an isolated phenomenon. Swedish aid should be guided by a concern for the environment and should strive towards the sustainable use of the available natural resources. This new objective was found compatible with poverty reduction. Environmental exploitation and degradation, it was argued, usually affected the poorest more than anybody else.

The five objectives which now guided the direction of Swedish aid should be looked at as a whole. In principle, the government acknowledged no possible conflict among them. Effective poverty reduction demanded efforts in a number of areas at the same time. Thus, the objectives were expected to strengthen and reinforce each other. It was recognised, however, that there could be a potential conflict between economic growth and protection of the environment.

When it came to Swedish support for the multilateral organisations, the Budget Bill made the point that common to the multilateral aid which Sweden financed was its poverty orientation. Furthermore, multilateral aid formed a good basis for donor co-ordination and practical collaboration. The government also claimed that the voice of Sweden was normally listened to in the various international fora. In other words, Sweden was actively contributing to and participating in policy and strategy formulation within the UN system and the Bretton Woods institutions. Thus, the Budget Bill contained the traditional Swedish position towards multilateral aid. Nevertheless, a discordant note was to be heard. The poor effectiveness of the UN system was mentioned, as was the need for reform of that system.

## **2.4 1990s: capacity building and poverty reduction**

If the 1980s had been characterised by the reform of economic structures – ‘getting the house in order’ – during the 1990s attention shifted to the political and social dimensions of development. This could be seen as a reaction to the effects of a too orthodox implementation of structural adjustment programmes. A number of studies had shown that the social dimensions of development had been largely neglected by SAPs. At the same time, it was unclear as to when the economies would eventually pick up and be able to provide their populations with basic social services. Hence, as a sort of gap-filling measure, donors came to focus on issues such as poverty, human rights and democracy.

The emphasis on economic growth continued, but the theoretical inspiration now came from other sources. The most influential strand of development thinking during the 1990s has probably been linked to institutionalism. This line of economic theory, represented by North (1990), put the focus on the institutions of society and their role in creating the conditions of growth. In a way one could say that the SAP's of the 1980s to some extent represented institutionalist thinking – ‘creating an enabling environment’. In the 1990s, institutionalism became associated with building the capacity of institutions. Capacity building re-emerged as an important aid instrument. Thirty years earlier it had been a predominant theme in the development debate. This time the focus had shifted from the individual to the institution. With regard to development aid this included issues such as good governance, respect for human rights and political systems which permit democratic development. Most important,

however, was the fact that poverty re-emerged as a key issue for development aid.<sup>7</sup> Historically these issues were not new to Swedish aid. In the Budget Bill of 1991 the Minister for Development Co-operation noted with some satisfaction that the international debate had now moved quite close to traditional Swedish policy positions (Ehrenpreis, 1995:20–1).

The Budget Bill 1992/93:244 did not contain much new in terms of policy. The focus on the poorest countries, as well as the poorest groups in these countries, was still maintained. It is perhaps noteworthy that the text recommended that respect for human rights and development towards democracy and a market economy should have considerable weight in the selection of recipient countries.

Although the basic framework of Swedish aid policy has remained intact during the 1990s, there have been changes. There was a stronger emphasis on policy dialogue than before. Compared with the 1960s, it was clear that policy formulation by recipient countries was no longer seen as a matter for them alone. Aid effectiveness was heavily dependent on correct policies in the recipient country. In order to ensure this, aid should be given within the framework of an ongoing policy dialogue with the recipient government. Thus, what had once been regarded by the Swedish Government as interference in matters which were more or less internal to the recipient country, now became the subject of policy dialogue. Within this policy framework SIDA prepared a proposal for how a poverty-oriented policy should be translated into a strategy for assisting the crisis-ridden countries of sub-Saharan Africa, in particular (Cedergren & Odén, 1991). It is instructive to consider this document in some detail as it provides useful insights into Swedish development thinking at the time.<sup>8</sup>

SIDA noted that there was a need for change. The conditions in sub-Saharan Africa had taken a turn for the worse. More specifically, SIDA mentioned the following factors:

- The SSA countries will become increasingly marginalised in the world economy, and aid flows will most probably remain at a high level.

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<sup>7</sup> See, for example, the UNDP *Human Development Report 1990* and the World Bank's *World Development Report of 1991* where poverty was a dominant theme.

<sup>8</sup> I have mainly relied on Ehrenpreis's discussion and presentation of this report (Ehrenpreis, 1995:21–2).

- The crisis, as well as the various SAP-influenced reform programmes had undermined the capacity and legitimacy of the state. The public sector had to be trimmed in order to fulfil its functions within the resources available.
- Increased economic growth is a prerequisite for resolving the crisis. Structural adjustment must contain special provisions for assisting the poorest groups, however.
- The social stratification of African societies had increased. Unless this process is stopped, the number of people living in absolute poverty will increase, which will be especially harmful to women and children.
- The connection between poverty and environmental degradation needs to be incorporated into aid strategies.

The report notes in particular that there should be a concentration on measures which directly reduce poverty, including the provision of health care, education and local infrastructure. Furthermore, aid should foster democracy by supporting local and popular participation in the development process, reform of the public sector, real debt reduction for the poorest countries, improving the competence of local institutions and promoting local influence on structural adjustment programmes.

In 1995 Swedish aid adopted its sixth objective – ‘contributing to more equitable rights between men and women’– in the Budget Bill 1995/96:153. This was a proposition that was well aligned with the trends in the international debate. In the Budget Bill there are references to an increasing international awareness of gender equality. The 1995 Women's Conference in Beijing represents the apex of this development.

Swedish aid was henceforth to support efforts in the recipient countries to create equal opportunities, rights and obligations for women and men. Poverty reduction remains the supreme goal. All six objectives were to combine to bring about reduced poverty. The government made it clear that there is no internal ranking order among the goals. A report of the Foreign Policy Committee expresses the relationship between the goals in the following way:

The principal goal of Swedish development co-operation is to raise the quality of life of poor peoples. The concept ‘quality of life’ includes people’s opportunities for making a secure living in a manner that is

foreseeable and safe, to be in good health and to have access to education and other social services. The objectives laid down by parliament...complement and reinforce one another in the overriding goal of reducing poverty and creating more egalitarian living conditions for poor people (quoted in SIDA, 1996:1)

It is pointed out that equality between men and women has always been important to Swedish aid, although it has not always been explicitly recognised. Equality between the sexes was an important condition for sustainable poverty reduction.

The focus on poverty reduction has also re-emerged as a 'hot' issue in the aid debate. At the 1995 UN World Summit on Social Development held in Copenhagen, the participating countries adopted a resolution in which they undertook to strive for the elimination of world poverty. Sweden's 1991 Budget Bill revealed renewed attention to poverty reduction, especially in connection with the policy dialogue on structural adjustment. The Budget Bill contained references to UNDP and the World Bank and their emphasis on poverty reduction and noted that the international community had come close to the Swedish way of thinking. At a number of international conferences – the world population conference in Cairo in 1994, the international women's conference in Beijing in 1995 – Sweden has subscribed to resolutions that emphasise the need to reduce poverty.

## **2.5 Summing up: '... to raise the standard of living of poor people'**

This is the supreme, and uncontested, objective of Swedish aid, which has survived 35 years of international development and is still relevant. This poverty orientation has been chiefly motivated by a belief in international solidarity. Other motives, such as strategic and commercial ones, have surfaced from time to time, but they have never been particularly dominant. The awareness of unfair international conditions, combined with a mix of Christian and socialist values, forms a solid basis for this solidarity. To the extent that there have been controversies, they have mainly been related to such issues as: how much aid should be given, to whom, in what form and under what conditions.

In order to achieve the poverty objective effectively, Swedish aid is guided by six different objectives: (i) economic growth; (ii) economic and social equality; (iii) economic and political independence; (iv) the democratic development of society; (v) concern for the environment and efforts towards a sustainable use of the



available natural resources; and (vi) equal opportunities, rights and obligations for women and men.

For a long time there were only four, but the last two were added in a comparatively short period of time in 1987 and 1995. They are all necessary components in realising the supreme objective of reducing poverty and improving the living standards of the poor. In fact, the introduction of the two most recent ones – the environment and gender equality – in 1987 and 1995 was motivated by a reference to poverty reduction. These objectives are seen by the government as equally important (although economic growth is clearly somewhat more important than the others). They are not believed to contradict each other; rather, they are seen as basically reinforcing one another. This view was not necessarily shared by those participating in the Swedish debate on development aid during the 1970s, when the conflict between the growth target and the objective of social equalisation was surfacing, and when there was discussion about which countries should be elevated to the status of Swedish programme countries. Thus, how the objectives are combined and how much emphasis is placed on each of them depends on country-specific circumstances, as well as the current dominant themes in the development debate.

Over time there have been shifts in emphasis, however. Johnston (1996:25) notes that:

‘...two of the objectives have largely been left by the wayside. One is the goal of pursuit of economic independence, now mostly discussed in the narrow sense of concern with avoiding aid dependency, and of political independence, which structural adjustment aid has rather served to undermine’.

### 3. The practice

This chapter attempts to show how the intentions of the aid policy have been put into practice. This is done in two ways: first, by looking at the allocation of aid across countries and sectors; and secondly, by trying to assess how effective Swedish aid has been in achieving its overarching objective of contributing to a reduction of poverty in the recipient countries.<sup>9</sup>

#### 3.1 The distribution of Swedish aid

The analysis of allocation issues is organised according to a top-down approach. It starts with a brief introduction to the major trends in Swedish spending on development aid and goes on to consider the extent to which the poverty objective is reflected in the selection of recipient countries. Thereafter, it looks at the sectoral distribution of aid across countries, and ends up by taking a look at an individual country – Tanzania – mainly focusing on how the sectoral composition of Swedish aid has changed over a longer period. Tanzania has been chosen because for many years it symbolised the aspirations and intentions of Swedish aid in all its aspects. In recent years, however, aid to Tanzania is no longer used as an example of successful co-operation. Instead, it has become the key example of what can happen when things go wrong.

From its inception in the early 1960s, development aid has been largely uncontested among the parties in the Swedish parliament. Aid has been regarded as important, and there has been an almost total consensus behind the government's commitment to reach the 1% GNP target. Aid received a steadily increasing share of the government budget up to 1975/76, when it came close to 0.90% of gross national income (GNI). Thereafter, the increase levelled off to vary between 0.90% and 1.0% of GNI. In 1992/93, the Swedish government, for the first time in history, cut the level of development aid. This was motivated first and foremost by the overriding concern to bring the budget back into balance; like all other public activities, development aid had to make its contribution to the strengthening and restructuring of the Swedish

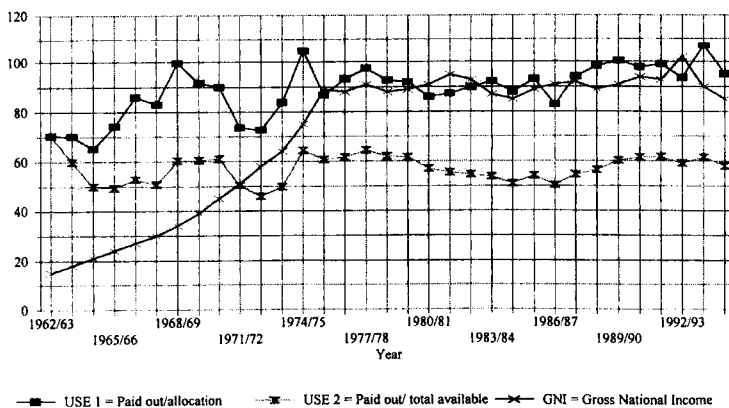
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<sup>9</sup> This section is based essentially on SIDA (1996) and UNDP (1993).

economy. Another contributing factor was a serious attack of aid fatigue. Little by way of development seemed to occur in the most important recipients of Swedish aid.

**Figure 2. Total Swedish aid, 1962–95**

Budget, use and share of GNI



The significance of these cuts should be seen against the background of the rather low disbursements of aid monies. Figure 2 illustrates the problem of disbursing the money allocated to the aid system in two ways. The first line (USE 1) shows how much of every year's allocation has actually been disbursed. For the whole period 1962–95 the average is 86%. This average contains, however, a trend towards more efficient disbursement. During the first 12 years 1962–74 disbursements were at a low level as well as recording large variations from year to year. From 1975 to 1986/87, the aid agencies became more efficient in disbursing the money at a comparatively stable level around 90%. From 1987 onwards the efficiency increases even more and at times reaches 100%. The second line (USE 2) offers a different perspective. It measures annual disbursements relative to how much is actually available to the aid agencies – the annual allocation plus reservations carried forward. This is perhaps a better indicator of the efficiency of the aid agencies in terms of meeting the disbursement target. Over the whole period the ratio averaged 55% and the trend remained fairly stable, with no increase towards the end of our period.

Swedish aid has obviously experienced serious difficulties in making use of the resources allocated to it by the government. The practice of fixing the budget allocation to a certain percentage of the GNI (an exceptional budgeting technique in the public sector) has led to the accumulation of surplus funds. This is not because basic human needs are more or less satisfied in the developing countries; on the contrary, there is ample evidence of people lacking even the most rudimentary facilities for a decent life in most parts of the Third World. The major reason for the low level of disbursement seems to be that the developing countries in general, and the least developed countries in particular, lack a capacity to receive and make effective use of aid.

**Table 1. Total Swedish aid according to region, 1994/95 (000 SEK)**

|                             | Allocation      | % of Total<br>Aid | % of which<br>Programme<br>Countries |
|-----------------------------|-----------------|-------------------|--------------------------------------|
| Africa                      | 3464417         | 26                | 72                                   |
| Latin America               | 920445          | 7                 | 24                                   |
| Asia                        | 2056282         | 15                | 53                                   |
| Oceania                     | 1204            | 0                 | 0                                    |
| Central & Eastern<br>Europe | 893781          | 7                 | 0                                    |
| Global<br>Interventions     | 5397983         | 40                | 0                                    |
| Administration              | 617198          | 5                 | n.a.                                 |
| <b>TOTAL</b>                | <b>13351310</b> | <b>100</b>        |                                      |

*Source: SIDA, 1996a*

The most important region for Swedish aid has traditionally been Africa. In 1994/95 aid to Africa amounted to around 3.5 billion SEK. The major part (72%) went to the so called programme countries – a familiar group of countries in southern and eastern Africa, which for many years have received substantial amounts of Swedish aid.<sup>10</sup> Asia was second in importance receiving around 2 billion SEK, only half of it reserved for the programme countries. Swedish aid to Latin America is comparatively small and the most important sub-region is Central America, where countries such as Nicaragua, Costa Rica, Guatemala have been important recipients. For a long time Sweden also had a stable relationship with Cuba. The fairly new programme in Central and Eastern Europe is the smallest, but has grown rapidly. Apart from development considerations, Sweden has a strong geopolitical interest in assisting the countries around the Baltic Sea. A fairly large proportion of the aid goes to what are termed as ‘global interventions’, in which we find contributions to various multilateral programmes, often connected with the Bretton Woods institutions. One of the larger items is the contribution to the IDA, another is balance-of-payments support for different windows in the World Bank and the IMF. Finally, administration of Swedish aid takes up around 5% of the total aid budget. This figure has been stable over the years. Whether it is low or high is difficult to say, but in terms of the money and tasks involved it does not appear to be on the high side.

In the public debate Swedish aid is usually identified with aid to certain regions and sometimes specific countries. It is common to refer to the programme countries in Eastern and Southern Africa when discussing aid effectiveness. As shown above they do not take particularly large chunks. A sizeable proportion goes to various multilateral initiatives (over which Sweden has much less control than in the case of the programme countries). An equally significant share goes to non-programme countries.

It can be argued on pretty solid grounds that because of the number of factors exercising an impact on the outcome of an aid project, as well as their complexity and interrelationships, the feasibility of an intervention can be determined only on a case-by-case basis. But it is also possible to argue the case for more generalised criteria, namely finding one or two indicators by which the countries where the effects of aid may be optimised can be identified. For reasons of policy-making and the need for generalising practical, operational guidelines, such a set of simple criteria can be useful.

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<sup>10</sup> Ethiopia, Kenya, Tanzania, Uganda, Angola, Zambia, Zimbabwe, Namibia, Mozambique and Botswana.

For poverty reduction aid to be effective certain capacities have to be in place in the recipient country. There has to be a policy framework conducive to poverty reduction. The institutions in the collaborating country have to possess a capacity not only to specify what they want, but also to contribute some of the resources needed for such a project. Thus, the targeting of suitable countries is the result of several interlinked factors. Supply-side considerations are, of course, not unimportant, but we prefer to approach the problem from the perspective of the needs and capacities of the developing country.

To select suitable countries simply on the basis of the level of the per capita income (PCI) is one possibility. For good reasons one could suspect this indicator of being too shallow. There is an old and well-established critique of the analytical value of the PCI concept, which shows clearly that the PCI measure cannot tell us much about a country's level of development. The PCI is nevertheless in common use, thanks to its implicitly low data requirement.

The need persists for a highly aggregated indicator which can also accommodate some aspects of the quality of life. The Human Development Index (HDI) was developed by the UNDP for this purpose. It goes beyond the simple economic measurement of the PCI. By combining indicators of real purchasing power, education and health, it tries to combine human development and dimensions of welfare with a traditional income measurement.<sup>11</sup> There is a critical discussion on the weakness of the concept, which we shall not go into here, but simply conclude that its existence should be seen as a healthy sign leading to an improvement of the HDI, rather than its abandonment. Anand and Sen (1993:104) explain the rationale of the HDI in the following way:

‘Income indicates the possibilities open to a person – but not the use the person makes of these possibilities: It is the lives that (human beings) lead that is of intrinsic importance, not the commodities or income that they possess’.

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<sup>11</sup> The HDI includes three key components – longevity, knowledge and income. Longevity is measured by life expectancy at birth as the only unadjusted indicator. Knowledge is measured by two educational variables: adult literacy and mean years of schooling. Income is measured by an adjusted GDP per capita, based on the premise of diminishing returns from income for human development.

In the *UNDP Human Development Report* of 1993 it is said: ‘The index is best seen as a measure of people’s ability to live a long and healthy life, to communicate and to participate in the life of the community and to have sufficient resources to obtain a decent living. It is a minimal measure. For a country that has achieved a high value of the HDI, the question then arises about other dimensions in which people can grow.’ (UNDP, 1993:104)

Applied to a country the rationale would be that we are interested not only in growth but also in how well a country succeeds in addressing basic issues of poverty. In other words, there is no automatic link between income and human development. The HDI is a measure of the strength of this link and therefore gives an indication of a country's development strategies and policies. The reader should note the careful use of 'indicator', rather than 'measure'. The HDI's usefulness as a measure of policies and strategies has its limitations.<sup>12</sup>

The PCI indicates the resources available to people in a country. Policies are the instruments by which resources are directed towards different uses – education, health services, defence etc. The HDI is determined by a country's development strategy and existing policy framework, more precisely by its human development orientation, and the capabilities and capacities to carry out its strategy. It is perhaps bold to assume that the HDI can be used to indicate the level of capabilities existing in a country. But the components of the index – income, education and health – are all important blocks in building capacities.

The UNDP Human Development Report offers a useful analytical tool by its rankings of country's in terms of PCI and HDI. By comparing a country's HDI rank with its PCI rank, you obtain a rank difference. The rank difference gives an idea as to how well a country has succeeded in translating its resources into well-being for its people. A positive figure shows that the HDI rank is higher than the PCI rank, a negative the opposite. Thus, a positive rank difference suggest a country which has preferred to use its resources for investments in human development. A negative rank difference would indicate the reverse: a country whose policies are not primarily used for building human capacities on a broader scale.

In order to see the structure of the Swedish country portfolio, we have selected a sample of countries which are not programme countries, but nevertheless recipients of Swedish aid. We compare them with the group of programme countries in terms of HDI and PCI ranks, as well as their rank differences (see Table 2).

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<sup>12</sup> The HDI tool is far from being undisputed. This is not the place to review the critical debate which has been going on since 1991. For a useful review of the criticism of the HDI the reader should consult Anand & Sen (1992).

**Table 2. Human development and per capita income in selected recipients of Swedish Aid**

| <b>Country</b>                    | <b>Aid</b> | <b>PCI 1992</b> | <b>HDI 1992</b> | <b>Rank Difference</b> |
|-----------------------------------|------------|-----------------|-----------------|------------------------|
| <i><b>Programme Countries</b></i> |            |                 |                 |                        |
| Mozambique                        | 513778     | 380             | 0.246           | 6                      |
| Zambia                            | 217443     | 1230            | 0.425           | 6                      |
| Tanzania                          | 262459     | 620             | 0.364           | 21                     |
| Ethiopia                          | 297598     | 330             | 0.227           | 3                      |
| Uganda                            | 273006     | 860             | 0.329           | -4                     |
| Zimbabwe                          | 225338     | 1970            | 0.539           | 0                      |
| Angola                            | 205150     | 751             | 0.291           | -3                     |
| Botswana                          | 60180      | 5120            | 0.763           | -7                     |
| Namibia                           | 109391     | 4020            | 0.611           | -31                    |
| Kenya                             | 152999     | 1400            | 0.481           | 7                      |
| Lesotho                           | 25671      | 1060            | 0.473           | 17                     |
| Nicaragua                         | 221105     | 2790            | 0.611           | -4                     |
| India                             | 556932     | 1230            | 0.439           | 7                      |
| Bangladesh                        | 176878     | 1230            | 0.364           | -5                     |
| Vietnam                           | 195136     | 1010            | 0.539           | 31                     |
| Laos                              | 88004      | 1760            | 0.42            | -12                    |
| Sri Lanka                         | 81781      | 2850            | 0.704           | 5                      |
| <i>Average</i>                    |            | <i>1683</i>     | <i>0.46</i>     | <i>2.18</i>            |
| <i><b>Other Recipients</b></i>    |            |                 |                 |                        |
| South Africa                      | 191625     | 3799            | 0.705           | -15                    |
| Rwanda                            | 107281     | 710             | 0.332           | 9                      |
| Zaire                             | 57806      | 523             | 0.384           | 29                     |



Table 2 continued

| <i>Other</i>      |        |             |              |             |
|-------------------|--------|-------------|--------------|-------------|
| <i>Recipients</i> |        |             |              |             |
| Egypt             | 54444  | 3540        | 0.379        | -23         |
| Sudan             | 28731  | 1620        | 0.379        | -10         |
| Bolivia           | 117106 | 2410        | 0.588        | -1          |
| Costa Rica        | 48412  | 5480        | 0.883        | 32          |
| Chile             | 48412  | 8410        | 0.880        | 8           |
| El Salvador       | 37145  | 2250        | 0.579        | 3           |
| Guatemala         | 30824  | 3330        | 0.591        | -20         |
| Philippines       | 191117 | 2550        | 0.677        | 8           |
| China             | 130623 | 1950        | 0.594        | 12          |
| Afghanistan       | 78170  | 819         | 0.228        | -12         |
| Pakistan          | 66237  | 2890        | 0.483        | -28         |
| Russia            | 67140  | 6140        | 0.849        | 0           |
| Latvia            | 64412  | 6060        | 0.857        | 6           |
| Estonia           | 56540  | 6690        | 0.862        | 5           |
| Lithuania         | 44975  | 3700        | 0.769        | 11          |
| Poland            | 39291  | 4830        | 0.855        | 20          |
| <i>Average</i>    |        | <i>4834</i> | <i>0.950</i> | <i>2.33</i> |

Note: PCI = Per capita income

HDI = Human development index

Source: UNDP, 1995:155-9

Our group of programme countries consists of 17 countries, 11 from Africa, 1 from Central America and 5 from Asia. The other group is a mixed bag of countries, 5 from Africa and Latin America respectively, 4 from Asia and 5 from Eastern Europe. Table 3 lists their respective HDI and PCI values. The right-hand column of Table 2 shows the difference between the PCI and HDI ranking, which indicates whether there is a link between income and human development. A positive difference

suggests that the country has formulated and implemented a development policy which successfully addresses issues related to a more equitable distribution of resources. It is a measure of the extent to which a country uses its incomes to satisfy the broader social needs of its population. A negative difference, on the other hand, suggests that there are few trickle-down effects from economic growth.

What are the structural characteristics of the Swedish country portfolio? Let us start by looking at the PCI and HDI columns. In terms of both PCI and HDI, the non-programme countries are, on average, better than the programme countries. The latter are poor in terms of PCI (US\$ 1683 compared with US\$ 3563) and their human development orientation (HDI 0.46 compared with HDI 0.64). But how do they position themselves in a broader international perspective? Table 3 contains a comparison with some commonly used aggregates of countries.

**Table 3. HDI and PCI across the world 1992**

|                                 | PCI 1992 | HDI 1992 |
|---------------------------------|----------|----------|
| Swedish programme countries     | 1683     | 0.46     |
| Other recipients of Swedish aid | 3563     | 0.64     |
| All developing countries        | 2591     | 0.57     |
| Least developed countries       | 935      | 0.337    |
| Sub-Saharan Africa              | 1346     | 0.389    |
| Industrial countries            | 15291    | 0.916    |
| World                           | 5410     | 0.759    |

*Source: UNDP, 1995: table 1, p. 155-7*

Let us start by looking at the programme countries. In an international perspective the PCI of the programme countries is below that for all developing countries, but higher than for the least developed countries. The dominance of Africa in the portfolio places it somewhere close to the average for SSA as a whole. In terms of HDI ranking, the programme countries are obviously better than the average African

country, but still below that for 'All developing countries'. Thus, on average the Swedish programme countries belong to the poorest of the world, although not to the 'poorest of the poor'.

The group of 'Other recipients of Swedish aid' is composed of countries which are comparatively well-off, using both indicators. Their PCI is higher than the average for all developing countries, as is the HDI value. Many in this group represent the middle income countries. Chile, Russia, South Africa, Poland are all countries which it is difficult to classify as being among the poorest countries of the world. China is a difficult case, since in terms of indicators it qualifies to be among the poorest countries while, at the same time, it possesses resources which clearly make such a classification unjustifiable.

The fifth column of Table 2 – 'rank difference' – contains perhaps the most important information. It is surprising to find that almost all programme countries have been successful in translating their incomes, meagre as they are, into improved well-being for their people. Namibia is the most extreme case of where this does not hold true. With a comparatively high PCI, it appears that the wealth generated by its mining industry has not generated much in terms of benefits to the poor of that country. Botswana was dropped as a Swedish programme country in 1996. It was regarded as too rich to qualify as a programme country. It was not, however, excluded as a recipient of Swedish aid.

The picture among the other recipients of Swedish aid is slightly different. The average rank difference is lower and the number of countries with large negative rank differences is higher. Countries such as Pakistan, Guatemala, Egypt, Sudan and Afghanistan are countries where the government seems to show a somewhat limited interest in development policies oriented towards poverty reduction. South Africa is another case, where in spite of the political changes, there is quite a lot for the government to do in terms of addressing the needs of the poor.

To conclude, Sweden's selection of recipients for its aid presents a mixed picture. In 1993 there were 116 countries receiving Swedish aid. Not all of them were among the poorest in the world, in fact quite a number qualify as middle-income countries. Nor does the recipient country's approach or commitment to poverty reduction does not either seem to serve as a qualifying criterion for Swedish aid. The explanation of this diverse pattern is that the country allocation of aid is done on the basis of a range of different principles, of which poverty reduction does not necessarily have to be the most important.

The picture changes, and becomes clearer and more consistent, when we look at only the programme countries. This is the core group of Swedish aid recipients, in many cases with an aid relationship dating back to the mid-1960s. Over the years there has been a close interaction with these countries on matters of policy and practice. In these cases poverty reduction as a selection criterion becomes much more transparent. There is a clear poverty focus (although not always the result of using poverty as the sole criterion). The programme countries are in general among the poorest in the world. The three countries with the lowest PCI in the world – Mozambique, Ethiopia and Tanzania – are all major recipients of Swedish aid. Furthermore, we would also venture to say that in most cases the programme countries have pursued development policies for income redistribution and poverty reduction which are aligned with the general objectives of Swedish aid (see de Vylder, 1996a).

But the programme countries receive only a small share of total Swedish aid. In 1994/95, total aid disbursed amounted to SEK 13,351 m., out of which SEK 3,758 m. was paid to the programme countries. This is consistent with a steady trend since the mid-1970s, towards allocating a proportionately smaller amount of resources to the programme countries (SIDA, 1996a: Tables 2 and 12).

Viewed from an international perspective Sweden's country distribution is more concentrated on the poorest countries than that of most other donors. Countries such as France, the United States and Germany have provided aid mainly to the 'richer' developing countries. Sweden has also channelled most of its multilateral aid to agencies which mainly support low-income countries, e.g. the IDA and the soft loan funds of the regional development banks, and UN agencies such as UNDP, UNICEF, WFP and IFAD (White, 1995)

A rough measure of the extent to which a poverty reduction policy is actually being implemented, can be obtained by looking at the sectoral composition of aid, the basic idea being that if aid is primarily allocated to the social sectors, then this would reflect the consequent application of a PR policy. Table 4 shows the pattern during the first half of the 1990s.

**Table 4. Sectoral allocation of Swedish aid disbursed by SIDA, 1990/91–1994/95 (%)**

|                               | 1990/91 | 1991/92 | 1992/93 | 1993/94 | 1994/95 |
|-------------------------------|---------|---------|---------|---------|---------|
| Social sectors                | 20.6    | 24.6    | 29.2    | 31.3    | 33.9    |
| <i>Education</i>              | 8.5     | 7.3     | 8.6     | 8.7     | 9.7     |
| <i>Health</i>                 | 8.1     | 10.0    | 9.3     | 10.0    | 11.5    |
| <i>Water &amp; sanitation</i> | 1.9     | 3.0     | 2.5     | 2.8     | 3.3     |
| Infrastructure                | 7.5     | 7.4     | 8.4     | 9.7     | 9.4     |
| Agriculture                   | 10.1    | 9.5     | 13.2    | 13.1    | 12.1    |
| Industry                      | 0.3     | 5.7     | 0.8     | 0.2     | 0.1     |
| Trade, tourism, etc.          | 1.4     | 1.9     | 0.1     | 0.1     | 0.0     |
| Public admin.                 | 4.8     | 3.6     | 6.0     | 7.6     | 5.5     |
| Multi-sector                  | 19.8    | 10.0    | 9.2     | 4.3     | 5.7     |
| Emergency aid                 | 12.2    | 13.7    | 18.7    | 22.6    | 20.8    |
| Programme aid                 | 19.8    | 20.3    | 10.7    | 7.6     | 8.3     |
| <i>Import support</i>         | 14.4    | 12.9    | 8.5     | 3.1     | 1.8     |
| <i>BOP</i>                    | 0.0     | 0.0     | 0.0     | 3.8     | 4.3     |
| <i>Debt relief</i>            | 5.4     | 7.4     | 2.1     | 0.7     | 2.1     |
| Administration costs          | 3.6     | 3.4     | 3.7     | 3.5     | 4.2     |

Note: It should be noted that the figures only concern aid distributed through SIDA, which may create a distorted picture of the sectoral composition of Swedish aid. The aid channelled through specialised agencies such as SwedeCorp (industry), SAREC (research) and BITS (technical co-operation) are not included.

Source: SIDA, 1996a

The following observations can be made. First, the social sectors dominate, accounting in 1994/95 for one-third of SIDA's programme – a significant increase from about 21% in 1990/91. Agriculture has always been the most important sector followed by health, education and infrastructure. During the 1980's industry was quite an important sector for SIDA. The insignificant figure of 0.1% in 1994/95 partly

reflects the fact that this sector is not a highly prioritised area for Swedish aid. More importantly it reflects organisational changes in the aid system. From 1992 industry became the responsibility of a specialised agency – SwedeCorp – and was no longer handled by SIDA. Aid for industrial development also formed an important part of the activities of another specialised Swedish agency – BITS. A notable feature is the growing importance of emergency aid. In 1990/91 it accounted for 12% of the total, and has since risen to nearly 21% in 1994/95.

Programme aid has traditionally played an important role in Swedish aid, in the form of either balance-of-payments support or import support. Since 1977 it has steadily fallen from its 37% level. Together programme and multi-sector aid accounted for 40% of total aid in 1990/91, four years later it stood at around 14%.<sup>13</sup> Recipients of programme aid in 1993/94 were Cape Verde, Ethiopia, Guinea-Bissau, Mozambique, Nicaragua, Tanzania, Vietnam, Zambia and Zimbabwe. Countries such as Angola, Bangladesh, Botswana, India, Kenya, Laos, Sri Lanka and Uganda received no programme aid at all. The averages hide important country variations, however. In the case of Cape Verde as much as 82% consisted of programme aid in 1993/94; for the other countries their share varied between 35 and 40% of total disbursements of Swedish aid (de Vylder, 1996b).

Apart from the early forms of import support with their targeted shopping lists, there are no direct specific mechanisms to ensure that Swedish programme aid contributes to poverty reduction. Assuming a positive link between economic growth and poverty reduction, participation in a policy dialogue has been identified as the major mechanism for ensuring that programme aid contributes to attaining the poverty objective of Swedish aid. The policy recommendations and conditions of this dialogue normally reflect the general thrust of structural adjustment programmes.

During the first half years of the 1990s, there was a shift in the sectoral composition of Swedish aid distributed through SIDA with the social sectors and emergency aid coming to account for over 50% of SIDA's portfolio. It is, of course, difficult to state, with certainty, whether this shift represents a stronger focus on the poor and the vulnerable. This would require a detailed examination of the characteristics of each aid intervention within the sectors. But at the present pattern can at least be taken as the proxy of a trend towards a higher awareness of the PR objective of Swedish aid.

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<sup>13</sup> A factor partly explaining this reduction was that import support through SIDA was replaced by BOP support through the Ministry of Foreign Affairs during this period.

Earlier on it was concluded that the group of Swedish programme countries were more or less well attuned with Swedish aid policy; they were poor and were reasonably interested in pursuing poverty reduction as part of their development strategies. The next logical step is therefore to look at the poverty profile of SIDA's aid to these countries. Table 5 gives the sectoral allocation of SIDA's aid to 13 programme countries.

The composition of aid to these programme countries exhibits basically the same pattern as for total aid (Table 4), although there are some notable differences. The social sectors, on average, were even more dominant (42%) when compared with the sectoral composition of total Swedish aid. This average hides a substantial variation among countries. In Uganda, the social sectors accounted for 62% of the aid, but only around 11% of the aid to Angola.

Is it possible to find some correlation between a countries PCI and HDI ranking and the composition of the aid it receives through SIDA? There are some variations between social sector allocations in different countries. It is not, however, possible to attribute this to the level of poverty as expressed for instance by the PCI or the HDI. Mozambique, Zambia, Angola and Laos are certainly very low on both measures. Nevertheless, social sector aid to these countries is far below the group average of 42%. Looking at the sectoral pattern for these four countries, it seems that Swedish strategy emphasises the promotion of economic growth rather than measures towards the alleviation of poverty. The economic sectors in these countries receive around 20-25%, which is higher than the group average of 19%.

**Table 5. The sectoral composition of Swedish aid to 13 programme countries, as distributed through SIDA, 1994/95 (%)**

| Country         | Social sector | Infra-structure | Economic | Public administration | Multi-sector | Emergency | Programme support | PCI   | HDI   |
|-----------------|---------------|-----------------|----------|-----------------------|--------------|-----------|-------------------|-------|-------|
| Mozambique      | 25.2          | 28.0            | 25.3     | 11.6                  | 0.2          | 4.3       | 5.3               | 380   |       |
| Zambia          | 23.1          | 9.8             | 21.2     | 4.7                   | 0.0          | 0         | 41.1              | 1 230 | 0.246 |
| Tanzania        | 53.5          | 17.7            | 15.7     | 9.4                   | 1.7          | 2         | 0.2               | 620   | 0.425 |
| Ethiopia        | 55.1          | 0.1             | 9.3      | 8.3                   | 3.1          | 24.1      | 0                 | 330   | 0.364 |
| Uganda          | 61.8          | 24.0            | 4.8      | 0.7                   | 0.0          | 8.8       | 0                 | 868   | 0.227 |
| Zimbabwe        | 47.5          | 19.8            | 0.0      | 13.5                  | 0.0          | 0         | 19.2              | 1 970 | 0.329 |
| Angola          | 11.5          | 40.3            | 32.5     | 0.2                   | 0.3          | 15.1      | 0                 | 751   | 0.539 |
| Kenya           | 58.4          | 16.8            | 23.7     | 0.3                   | 0.9          | 0         | 0                 | 1 400 | 0.291 |
| Nicaragua       | 44.1          | 11.1            | 12.8     | 8.7                   | 0.0          | 0         | 41.1              | 2 790 | 0.481 |
| India           | 52.1          | 34.3            | 13.4     | 0.2                   | 0.0          | 0         | 0                 | 1 230 | 0.611 |
| Bangladesh      | 56.3          | 0.0             | 43.4     | 0.0                   | 0.4          | 0         | 0.0               | 1 230 | 0.439 |
| Vietnam         | 41.4          | 3.9             | 43.7     | 9.9                   | 1.1          | 0         | 0                 | 1 010 | 0.364 |
| Laos            | 13.1          | 44.8            | 23.9     | 18.2                  | 0.0          | 0         | 0                 | 1 760 | 0.539 |
| Country average | 42.2          | 19.4            | 19.3     | 8.4                   | 0.6          | 3.9       | 6.4               |       | 0.420 |

Source: SIDA, 1996a

PCI=Per Capita Income

HDI=Human Development Index



Tanzania has been a major recipient of Swedish aid for many years. It is therefore instructive for our purposes to see how the composition of its aid has changed over a ten-year period. Table 6 shows the distribution of total Swedish aid, not only that distributed through SIDA. Up to around 1992/93, the pattern was fairly stable. The dominant sectors were industry, education and programme aid. In 1984/85 the social sectors, economic sectors and programme aid together accounted for 86% of total Swedish aid. Ten years later the proportions had changed dramatically. Programme aid and aid to the industrial sector had virtually disappeared. Support to the social sectors had more than doubled and accounted for just over half of the Swedish aid programme in Tanzania. Agriculture had also substantially increased its share from 1.1% in 1984/85 up to 15% in 1994/95. During the same period of time the volume of aid had increased from 161 million up to 799 million in 1994/95.

These structural changes had taken place when Tanzania's economic and political system went through some dramatic changes. Strong external pressures for change had been motivated by an increasing concern about the inefficiency of the economy and the public sector in particular. Economic liberalisation within the framework of structural adjustment and the subsequent introduction of a multi-party system meant a transformation of the 'old' Tanzanian regime. The changing composition of the Swedish aid portfolio does, of course, reflect this transformation of Tanzanian society; for example, the increased emphasis on the social sectors was justified by the social costs of structural adjustment. A revival of economic growth was imperative in Tanzania. Since agriculture is the backbone of the economy, growth must start there.

Experience from the past was also important. Aid fatigue was certainly an important factor influencing Swedish aid policy towards Tanzania. Like many other donors Sweden had been disappointed by Tanzania's inability to make effective use of its aid. A good example is the support given to industrialisation. During the 'basic needs' period, industrial development was an important priority for aid in general and Swedish aid in particular. This is no longer the case; policy reform has opened up opportunities for private capital to function more efficiently than in the past. Equally important were the lessons from the past. Aid had been responsible for creating/assisting industries within the parastatal sector, many of which were 'white elephants' needing watering by scarce public resources (Thorkildsen, 1988).

**Table 6. Sector allocation of Swedish aid to Tanzania, 1984/85–1994/95 (%)**

|                               | 84/85 | 85/86 | 86/87 | 87/88 | 88/89 | 89/90 | 90/91 | 91/92 | 92/93 | 93/94 | 94/95 |
|-------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Social sectors                | 20.2  | 18.6  | 17.5  | 19.1  | 20.9  | 18.7  | 24.3  | 19.6  | 30.1  | 21.2  | 53.5  |
| <i>Education</i>              | 10.7  | 9.2   | 10.5  | 10.7  | 10.7  | 10.0  | 13.9  | 11.2  | 16.0  | 9.2   | 25.4  |
| <i>Health</i>                 | 1.4   | 1.5   | 0.6   | 0.7   | 1.3   | 2.3   | 2.8   | 2.6   | 4.5   | 4.5   | 5.4   |
| <i>Water &amp; sanitation</i> | 8.1   | 7.8   | 6.4   | 7.2   | 7.9   | 5.7   | 6.3   | 5.0   | 9.5   | 7.5   | 22.7  |
| Infrastructure                | 5.0   | 8.0   | 8.1   | 9.1   | 5.5   | 5.8   | 5.5   | 13.3  | 32.1  | 44.8  | 17.7  |
| Economic sectors              | 31.5  | 27.9  | 30.6  | 22.0  | 25.4  | 26.9  | 28.8  | 21.1  | 13.5  | 7.3   | 15.7  |
| <i>Agriculture</i>            | 1.1   | 8.1   | 10.2  | 5.1   | 7.2   | 9.9   | 7.4   | 6.5   | 10.8  | 7.3   | 15    |
| <i>Industry</i>               | 20.2  | 18.5  | 18.6  | 16.0  | 18.0  | 17.1  | 21.5  | 14.6  | 2.7   | 0.0   | 0.6   |
| Public administration         | 4.8   | 7.8   | 7.0   | 7.6   | 9.4   | 3.4   | 4.9   | 4.7   | 6.7   | 3.2   | 9.4   |
| Multisector                   | 4.3   | 0.0   | 0.0   | 2.5   | 0.9   | 0.6   | 1.0   | 0.5   | 0.8   | 0.5   | 1.7   |
| Emergency aid                 | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   | 0.3   | 0.0   | 0.0   | 1.4   | 2     |
| Programme aid                 | 34.3  | 54.6  | 37.8  | 39.8  | 38.0  | 44.6  | 35.1  | 40.8  | 16.7  | 21.7  | 0.2   |
| <i>Import support – tied</i>  | 28.7  | 38.5  | 27.4  | 26.5  | 26.2  | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   |       |
| <i>Ibid untied</i>            | 5.5   | 16.0  | 10.4  | 13.3  | 11.8  | 44.6  | 35.1  | 40.8  | 16.7  | 21.7  | 0.2   |

Total country  
frame:

|                      |         |         |         |         |         |         |         |         |         |         |         |
|----------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Current prices       | 161 921 | 489 143 | 373 281 | 583 083 | 533 675 | 668 667 | 483 369 | 441 155 | 480 680 | 424 099 | 482 083 |
| Constant 1985 prices | 161 921 | 502 596 | 392 970 | 642 626 | 599 973 | 827 738 | 656 355 | 638 395 | 743 472 | 677 535 | 799 084 |

Source: SIDA, 1996a

### 3.2 The effectiveness in reducing poverty

How effective has Swedish aid for poverty reduction actually been? This is a question which is quite difficult to answer. The chief sources of such information – aid evaluations – are more or less silent on what has been accomplished in terms of poverty impact. For Swedish aid this was confirmed by a review of 80 evaluations covering the period 1986–94, carried out in order to examine the effects of the evaluated activity on poverty reduction and the extent to which the evaluations actually managed to address the issue and draw conclusions on the poverty reduction impact of the project.<sup>14</sup>

Of the 80 reports examined, 30 addressed in some way the issue of the impact on poverty reduction. These 30 evaluations can be further subdivided into two distinct groups. One (14 cases) covers interventions with a direct link to poverty and contains more or less specifically targeted projects and programmes. These interventions were guided by the principle that poverty needs to be addressed directly if any results are to be expected. The targeted interventions were normally found in areas such as forestry, rural employment and water supply. The second group (12 cases) contains the classical approach to poverty reduction, i.e. through the trickle-down effects from economic growth. Cases concerned with indirect impact typically concerned more macro-oriented interventions, such as import support or whole country programmes. There were also four cases which addressed poverty as an objective, but without defining a clear relation to the intervention being evaluated.

The nature of the intervention did seem to have influenced the quality of the poverty analysis. Studies of target group-oriented programmes demonstrated a substantially higher level of ambition regarding the PR analysis than the cases based on indirect impact.

The discussion on impact was more clearly present in cases of forestry and rural development, disaster relief and NGO operations. Evaluations concerning industry, education, health and public administration generally lacked a poverty impact approach. In the cases of primary education, primary health and immunisation the

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<sup>14</sup> This section is based on the findings in Eduards, 1995.

approach was motivated by the closeness of the intervention to the target group. They are all interventions aimed at establishing a basic level of services, which can be expected to benefit in particular those who have had no, or only limited, access to such services. Industry and public administration are examples of evaluations following an indirect analytical approach. The basic argument is familiar: industrial development and an efficient public sector will generate spin-off effects which in the end will be of benefit to the poor.

There was also a relation between the quality of the discussion on poverty impact and the location of the project/programme. Of the 80 evaluations, 56 concerned projects located in Africa. Of the 14 direct targeted interventions (with a subsequent high quality of poverty analysis), 10 were located in Latin America and Asia and only 4 in Africa. Thus, the attention paid to poverty reduction in Africa by Swedish aid evaluations is quite small.

None of the evaluations based on an indirect approach to poverty reduction contained any discussion on how this poverty effect is or may be produced. The underlying, not necessarily explicitly stated, assumption is classic. The effects of economic growth will sooner or later trickle down also to the poorest of the poor. It is notable that few evaluations contain any critical discussion whether this assumption is valid.

The most notable feature, however, was that a majority of the 80 evaluations reviewed contained no attempt to analyse the impact of the intervention on poverty reduction. Instead they preferred to discuss technical and operational matters closely related to project management. This is true across countries, sectors, projects or programmes. What seems to play an important role in determining this lack of interest in the issues of poverty impact is the fact that nobody asked for them. It was not part of the terms of reference of the evaluation to analyse poverty impact. Furthermore, a common trait seems to be that the depth and quality of the poverty impact analysis depend on the degree of targeting of the intervention. In projects and programmes where the poor are directly targeted, the evaluations normally contain serious analysis of poverty impact. As Eduards (1995:34) points out:

The logic seems to be that SIDA had this category of interventions designed specifically to reach the poor or disadvantaged groups, and was consequently interested in following up results in that respect, asking also specifically for this aspect to be covered by the evaluation in question.

The general impression gained from this meta-evaluation is that of the 80 evaluations studied, maybe around 10 have satisfactorily addressed the impact of Swedish aid on poverty. The others could have done much better. What is even more distressing is that SIDA, which commissioned the evaluations was not really interested. The evaluators were never asked to find out whether the prime objective of Swedish aid had been met or not.

Thus, the state of our knowledge is poor. It is not possible to say with any certainty whether Swedish aid policy has been successfully translated into practice, either because the data are not conclusive, or because the information is simply not there. If this lack of interest indicates the importance SIDA attaches to poverty reduction, then the conclusion must be either that a basic tenet of Swedish aid policy is not taken seriously, or that the quality of SIDA's evaluation function leaves a lot to be desired.

## 4. New guidelines for poverty reduction

In 1996 SIDA produced an *Action Programme to Promote Sustainable Livelihoods for the Poor and to Combat Poverty* (SIDA, 1996b). This was the outcome of a long process of research and discussions within the agency, in order to clarify how poverty issues could best be dealt with in Swedish development co-operation. A Task Force for Poverty Reduction had been set up in 1994 to study this issue. Its report served as a reference point for preparing the new programme of action (SIDA, 1996c). This programme is expected to set the framework for SIDA's future work, in all areas of its activity.

Central to SIDA's understanding of poverty is the concept of the 'quality of life'. This is an all-embracing concept including such things as: guaranteeing the poor their human rights and freedoms, opening up their range of choices, improving their environment and security and, finally, increasing their capacity to provide for themselves. Thus, poverty reduction means fighting on a number of fronts at the same time. The conditions for successful poverty reduction are not insignificant. The most important is the commitment of the recipient country to poverty reduction. There also has to be a stable framework for development, meaning conditions of peace and security, economic growth, good governance, strong institutions and development of human capacity.

The major responsibility for poverty reduction is thus placed on the recipient country. SIDA's main role is limited to support in such national efforts. For a variety of reasons, Sweden supports countries whose governments do not have poverty reduction as a major policy priority. In such cases SIDA should carefully balance collaborating with them on their own terms and persuading them to choose a direction which it regards as the most suitable for improving the lot of their poor citizens. In this regard, SIDA will take into account the political will to reduce poverty and formulate Swedish support accordingly (SIDA, 1996b:6). Even if a recipient country shows little credible will to reduce poverty, Swedish support is still possible. Aid will then be directed through 'like-minded' groups and organisations. In these cases the support will take the form of projects which directly benefit the poor.

How then does SIDA determine whether a government is serious in its will to work effectively for poverty reduction? The core of Sweden's aid management is the

country strategy (see below). This is the major instrument for the governance of Swedish aid. It is supposed to outline the government's views on the co-operation and to determine the financial framework and the orientation in terms of areas and sectors as well as the expected results. The country strategy document should be actively used in discussions with the recipient country. It is also something that can be used in various multilateral fora and as an input into efforts at donor co-ordination.

Underlying the country strategy should be an analysis of the needs and development efforts of the country with which Sweden is co-operating. In this country analysis SIDA will take into account non-productive public expenditure such as military spending, subsidies for unprofitable government-owned enterprises or activities that favour the better-off groups, and the relative distribution of budget expenditures between the social and other sectors.

The impact on poverty is the main criterion for judging the feasibility of a project or programme. Such a needs assessment should, however, differentiate between different types of impact (ibid:7).

(i) **Direct impact** usually takes place through a direct targeting of poor local communities and households.

(ii) **Inclusive impact** covers projects and programmes which reach several social categories. Examples are support for primary education, primary health care, including sexual and reproductive health, rural roads and small credits.

(iii) **Policies and institutions** refer to inputs which aim at creating a stable basis for combating poverty. These include legislation and institution-building to promote economic and social growth and democratic governance, tax reforms, and macroeconomic reforms which have the aim of creating sources of livelihood and job opportunities.

(iv) Other **indirect impacts** cover projects which create the necessary conditions for growth and employment. These include balance-of-payments support and debt relief, investments in infrastructure and trade and industry, as well as support for the management of natural resources.<sup>15</sup>

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<sup>15</sup> The Programme also note that in exceptional cases, projects can be supported which do not have a demonstrable impact on poverty. Examples of this kind are cultural and scientific exchanges and a certain amount of development research.

Although the situation differs from country to country as to who constitutes the poor, certain groups of people are known to be almost always among the poorest in society: female-headed households; mothers and children; households in areas treated inequitably by economic development; ethnic groups threatened by marginalisation; and people with mental or physical disabilities. These groups will also receive special attention in SIDA's work.

SIDA's methods of operation will accordingly be designed to fit its emphasis on poverty reduction. The Action Programme identifies seven operational methods.

- (i) To enable SIDA to conduct a dialogue with the co-operating countries, it is vital that solid knowledge about the poverty situation is available. Such knowledge is generally lacking, or of poor quality. It will be an important task of SIDA, together with the co-operating country, to develop such a knowledge base.
- (ii) The country strategy is SIDA's most important management instrument. It is also a document which should be produced in collaboration with the recipient country. Hence, it constitutes the hub of the dialogue with the co-operating country.
- (iii) When planning and designing projects and programmes 'SIDA will seek to ensure that the voice of the poor is heard'. This means pursuing planning processes which will engage the active participation of poor communities in the local planning and execution of projects. Furthermore, 'All projects shall define their target and participant groups and indicate their planned impact on poverty' (ibid:10).
- (iv) In cases where the recipient government is not particularly interested, or does not have the capacity to engage in programmes of poverty reduction, NGO's may be a feasible intermediary for reaching the poor.
- (v) Recognising the lack of applied methods for analysing and combating poverty, SIDA will promote interdisciplinary and intersectoral co-operation and contribute to integrating micro- and macro-perspectives in analysis and practice (ibid:11). Support will be given to research and to the development of new methods for analysing poverty, for measuring progress in combating it, and for evaluating the efficiency of different strategies. Specifically, SIDA will set up a permanent Task Force on Poverty to work on a long-term basis with poverty issues.
- (vi) There is a recurrent need to train the staff of SIDA in order to increase its awareness of poverty issues.



(vii) Evaluation of poverty impact has not been very successful in the past. This will now be changed. The Department of Evaluation and Internal Audit will act on an advisory basis to the other departments in SIDA.

This is not the place or the time to pass judgement on the realism and/or feasibility of this action plan. Nevertheless, the plan is not without interest, and deserves to be taken seriously. Obviously it has been taken seriously by the Swedish government, which issued new policy directives for Swedish aid in 1997 (Swedish Government, 1997:para 169). The title of this proposal to Parliament is interesting – ‘The rights of the poor – our common responsibility’ – and the document merits some further consideration.

The purpose of the proposal is to present ways in which Swedish development cooperation can be strengthened in order to achieve the over-arching goal of poverty reduction. In other words, it is a policy document with a strategic orientation. The document is quite extensive. Anybody entertaining the idea that policy documents should be short and to the point would be dismayed when confronted with this document which can best be described as an essay – total length 57 pages. The first 20 pages are devoted to a presentation/discussion of concepts and definitions, an analysis of the development of poverty in the world, and finally, a discussion of the conditions for fighting poverty. We shall not spend much time on these chapters, but simply note that they can be described as presenting the state-of-the-art of the poverty debate. It is also noteworthy that the government’s definition of poverty comes quite close to the definition once put forward by Amartya Sen: poverty is defined as the lack of security, capacity and possibilities.

It is in terms of strategy that the document becomes interesting. The basic message is that effective aid for poverty reduction demands a changed relationship between donor and cooperating country: a partnership against poverty, which builds on mutual goals and responsibilities and a common view on the conditions and policy required to fight poverty. Let us explore this general position in more detail.

A basic condition for successful poverty reduction is that the poor themselves feel committed and involved in the process. Thus, there must be a sense of ownership among the ultimate beneficiaries of aid for poverty reduction. Since a donor government rarely has direct contacts with the poor, it is important that all relations in development cooperation are designed in such a way that they strengthen the ownership of the target group. The condition for this to take place is linked to the idea of aid as partnership.

The document notes agreement among that almost all donors that the traditional relationship between donors and recipients must be replaced by one based on partnership.<sup>16</sup> It is no longer possible to base aid on the idea that the rich countries want to do something for the poor countries.. The point of departure should rather be cooperation with the poor and support of their own development efforts.

The document further notes that a poverty reduction policy cannot be measured by the number of projects for the poor, nor by the sectoral allocation of aid, for example a preference for the health and education sectors. A successful poverty reduction policy is best measured by the existence of a common view/approach between donor and recipient. Such a view will form the basis for important strategic decisions. The document identifies four types of choices as particularly important:

*(i) The choice of cooperating countries*

Sweden today has some sort of cooperation with almost every developing country, although there is a concentration on the so-called programme countries. From the perspective of poverty reduction the choice of cooperating country should be guided by the following principles: the need of the country, i.e. its degree of poverty; and its will and capacity to implement a policy against poverty and in favour of economically, socially and environmentally sustainable development. It is not enough to express the will to do so; the government must also conduct an open dialogue with the civic society in order to establish a truly national ownership.

*(ii) The choice of collaborating partners and channels*

The dominant mode has been, and will continue to be, a relationship with the government of the recipient country. The choice of partners and channels is, however, very much dependent upon the situation in the individual country. There is a need for more flexibility and openness to new relations. As examples, the document mentions direct support for local governments with the participation of local groups and private firms.

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<sup>16</sup> See for example the OECD/DAC document 'Shaping the 21st Century: The contribution of development cooperation', which was adopted at the high-level meeting in 1996.

### *(iii) The choice of forms and methods*

The historically dominant project mode has shown itself to be less than efficient. It has often tended to place the focus on the project itself, which then becomes the end rather than the means. The project mode also contributed to a neglect on the part of donors of the importance of the macroeconomic environment for aid effectiveness. This does not mean that there is no place for individual projects in the future. But they need to be different. They should aim primarily at strengthening a process in which the poor themselves are participating. The purpose should be to create socially sustainable processes, networks and institutions at the local level. Aid should avoid creating project enclaves which aim only at supplying resources, since this easily leads to increased dependence.

Programme aid is not necessarily an alternative. For programme aid to be effective it must be based on an agreed macroeconomic policy and priorities. Otherwise there is considerable risk that aid will only create openings for other expenditures (fungibility) or imbalances in the budget.

For the future development aid needs to stand on 'two legs': First, an ambition to replace traditional donor-centred modes of aid delivery with programme aid based on the recipient country's own priorities and under its own management. Second, individual interventions involving popular participation and with the purpose of creating sustainable processes at the local level.

### *(iv) The design of contracts*

Every relationship in development cooperation is regulated by some kind of contract. Contract design of contracts should find its point of departure in the responsibilities and leadership of the target group. A partnership relationship assumes some kind of equality between the parties when the contract is entered into. This can be difficult when the money is contributed and controlled by only one party. It is therefore desirable if for the recipient country to take more direct financial responsibility. Finally, a contract must be adhered to by both parties. This has not always been the case in development cooperation. It must also be made clear how a situation in which where one party does not fulfill its obligations is to be handled.

To conclude, the new policy guidelines for Swedish aid represents a clear expression of the political importance attached to poverty reduction as an overarching goal of Swedish development assistance. The document is interesting because it can also be

read as the government's own evaluation of 30 years of Swedish development assistance. Some examples may illustrate the point.

First, the key word is partnership. The fact that this is emphasised suggests that a basic principle of Swedish development aid for the last 30 years has been difficult to uphold in practical development work. Second, the government identifies four strategic choices that need to be made in order to ensure that aid is effective in reducing poverty. These choices have not come about by accident. The fact that the choice of country, collaborating partners, forms and methods, and, finally, the emphasis on the importance of a contract, are singled out represent an acknowledgement of the fact that none of them have worked very well in the past. Whether they will work better in the future remains to be seen.

## **5. The future management of Swedish aid**

A proposal for reform of the system of planning and monitoring Swedish aid was outlined in the 1992/93 Budget Bill. The Bill introduces a new system for collaboration with recipient countries. It also proposes a new planning system in aid administration – management by results, rather than objectives. The purpose of these changes is to provide for greater aid effectiveness, in terms of achieving the poverty objective, and better resource utilisation, in terms of making better use of taxpayers money.

This proposal is important, not only from an administrative point of view, but also because it has implications for aid policy, since it introduces a new relationship between Sweden and its aid recipients. It is therefore worth presenting the proposal in some detail.

It is Parliament which decides on matters of Swedish aid, on the basis of the government's Budget Bill. The government proposes that the long-term objectives of Swedish aid should be given a much more guiding role than before. They need to be constantly analysed and reviewed in terms of results. It is the results of various aid interventions that will determine the future orientation of Swedish aid, as well as its budget allocation. It is recognised that management by results is difficult for aid, since a large part of the activities are not controlled by the Swedish authorities. The government therefore proposes a new budget structure, which is more attuned to the principle of management by results. In the future Parliament and the government are to have a larger say in planning the orientation of the aid. This is seen as particularly important at times when there are severe deficits in the state budget. It is the government which formulates country strategies, which are to function as the basic policy and strategy tool for aid to a particular country. It is also the government, and not the aid agency, which is responsible for the initial, 'high-level talks' with the recipient government. The more pronounced the government role is also seen as facilitating closer communication with Parliament.

In the 'old' system, the core planning instrument had been the country frames, which are condensed in the Bill as rigid and inefficient planning tools, leading to a wasteful use of resources. The country frames were based on fixed three-year agreements with agreed annual budgets. It had been proposed that they should be replaced by

indicative planning frames, in which budgets and payments were linked to what was achieved. Money that could not be spent, or was spent badly, could be removed from the planning frame and shifted to use elsewhere in another country. Such transfers from one country frame to another proved virtually impossible to implement, however. The message conveyed to the recipient countries was simple: unless you use the money wisely, there are no guarantees that the money will continue to be available. This system was expected to increase the recipient's responsibility for the aid money, and hence enhance the effectiveness of aid.

The new planning process was decided upon in 1995. It is worth describing in some detail as it will be the major instrument for implementing Swedish aid policy for the most important recipients of Swedish aid.<sup>17</sup> The purpose of the country strategy (CS) is to facilitate efficient management of Sweden's development cooperation with a recipient country. It is to present the viewpoint and intentions of the Swedish government and to determine the orientation, organisation and expected results from cooperation. It should be designed in such a way as to facilitate a policy dialogue not only with the recipient, but also in multilateral fora and in donor coordination. A CS is to be prepared for all programme countries, and other major recipients of Swedish aid (for example, the countries of Central and Eastern Europe).

A CS means a long-term commitment, and its point of departure should be the six objectives of Swedish aid. It should also take into consideration Swedish interests in a wide sense, as well as the needs of the recipient country. This holistic approach requires an intensive dialogue between the Ministry of Foreign Affairs, SIDA and the recipient country. The CS should express Swedish priorities and objectives. The participation of the recipient country is required in order to achieve a real sense of ownership. The purpose of the CS process is to achieve a consensus among its major stakeholders – the Ministry of Foreign Affairs, the relevant embassy, SIDA and the recipient country.

The preparation of a CS comprises six steps:

(i) The process starts with the government issuing an instruction to SIDA to prepare a proposal for a CS.

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<sup>17</sup> An internal document of the Ministry of Foreign Affairs is the main source for describing the process and its intentions. *Den nya landstrategiprocessen: information*. PM from the Department for International Development, Ministry of Foreign Affairs. 16 November 1995.

(ii) The next step involves preparing the ground. SIDA and the Ministry of Foreign Affairs jointly plan the work, decide on the key issues, draw up a timetable and collect the information needed for the country analysis. This means drawing on written reports, such as evaluations, but also entering into a dialogue with representatives of the recipient country. The dialogue is by no means limited to official contacts. It could also involve contacts with representatives of the private sector, non-governmental organisations and individuals with in-depth knowledge of the country.

(iii) Following the phase of information collection and consultation, SIDA prepares, in collaboration with the Ministry of Foreign Affairs, a draft CS. This should consist of three parts: an analysis of the country situation, an analysis of the results of previous cooperation, and a proposal for a CS. The time frame of a CS should be five years, and the process of developing a new strategy should start after three years.

(iv) The government decides on the CS and the outline of a cooperation agreement.

(v) A delegation from Sweden then enters into negotiations with the recipient country about the proposed cooperation agreement. The negotiations should result in a signed agreement. If deemed necessary and desirable, the discussions of the parties will be summarised in Agreed Minutes.

(vi) Following the successful conclusion of the negotiations, SIDA prepares a country plan, namely a detailed inventory of the various projects, their objectives and expected results. This plan forms the basis for the annual monitoring of the CS. The annual talks between Sweden and the recipient should take place at several levels. Discussion of the CS should be kept separate from more operationally oriented discussions at the sector and project levels.

The CS process combines features of the old programming system as well as incorporating some new ideas. Under the old system of country frames the recipient had access to a budgeted amount of money in order to implement a series of agreed activities. Built into this system was the stipulation that the activities were effectively carried out and the objectives achieved. The CS process contains the same type of dialogue, with perhaps even more emphases. But there are important differences from the previous system. First, the new process gives the government a stronger role in the development of the CS. There is now much closer collaboration between SIDA and the Ministry of Foreign Affairs. At the same time, however, the CS also gives SIDA much more responsibility for realising the CS. Parliament and the government

formulate the objectives and frameworks, allocate the resources, specify the different demands and follow up on the results. SIDA, together with the relevant embassies, is given considerable freedom in interpreting the strategy in terms of concrete programmes and projects. Secondly, the CS has a much stronger orientation towards results. Future volumes of aid are made dependent on the results achieved. This was not the case previously with the result that there was often a considerable accumulation of reserves. The recipient countries were unable to spend the budgeted amount. Instead of being reallocated to other uses they remained more or less idle until they could be absorbed. The CS process ideally sees the responsibility of financial reporting and evaluating of results resting with the recipient country.



## 6. Concluding reflections

A reading of the government's policy documents shows that Swedish aid policy has been remarkably consistent ever since its inception in the early 1960s. Poverty reduction has been the supreme goal of Swedish aid during all these years, supported by four more specific goals to guide the design and implementation of the aid. In 1987 protection of the environment was established a fifth goal and in 1985 gender equality was added to the list of official goals. The addition of these goals within a comparatively short space of time is perhaps no coincidence. They were introduced during a period when Swedish aid was undergoing changes, not only in terms of its operations, but also in terms of policy. Compared with the 1960s, aid became more all-embracing; it was supposed to cover almost every aspect of a society's development. In that process it also became more interventionist. The policies of recipient countries were no longer their own responsibility, but became the subject of policy dialogue between donor and recipient. Conditionalities of various kinds and strengths became commonplace in that dialogue. Swedish aid policy was not unique in this development, it largely followed an international trend.

The extent to which a quite consistent policy has been translated into practice which clearly aims at poverty reduction is a different matter altogether. Let us look at three important indicators for judging the poverty orientation of Swedish aid. The first two concern the allocation of aid resources – to sectors and to countries. The third concerns the impact of Swedish aid on poverty reduction.

(i) In terms of sectoral allocation there has clearly been a preference for the social sectors – education, health, water supply and sanitation etc. These are sectors where the chances of reaching the poor should be fairly good. Nevertheless, using sectoral allocation as an indicator has its problems, since it is not clear to what extent the poor are reached at all. To discover that one would need to examine the nature of each aid intervention. It is therefore more relevant to say that the pattern of sectoral allocation of Swedish aid shows a welfare orientation,

(ii) In order to be aligned with the basic intentions of Swedish aid, a recipient country should, first, be numbered among the poorest in the world and, second, its government should have poverty reduction high on its political agenda. The analysis showed that there was not much consistency in the application of these criteria. Only

in the case of the programme countries were these conditions reasonably fulfilled. Those countries were among the poorest in the world, and in general they pursued poverty reduction as an important policy priority. For the majority of the recipients of Swedish aid, and where also the major part of Swedish aid goes, other allocation criteria are obviously more important. The focus, for instance, on Eastern Europe cannot be motivated by reference to the goal of poverty reduction.

(iii) The poverty orientation of Swedish aid is usually determined not by what the aid money achieves, but by where it is being spent. There is a lack of feedback from the field regarding results and the likely impact of aid on poverty reduction. It is yet to be demonstrated that Swedish aid has had a positive impact on poverty reduction in the recipient countries.

This leads us to the conclusion that there is a significant gap between policy and practice. Judging from what we can see from the practice, it would be much more correct to say that Swedish aid policy has a clear welfare orientation. It is difficult to see the supreme objective of poverty reduction clearly and consistently reflected in Swedish aid practice.

How then is the relevance of the Swedish aid policy to be judged? Such a judgement can be made from two perspectives, depending on how one prefers to understand the concept of policy.

A policy can be understood as something which is used for managing an organisation. It is basically a management tool for when it is defining what the organisation is doing and for what purpose. In this perspective a policy has to be reasonably clear, since it has to make sense for those who work in the organisation. Clarity is necessary since policies are translated into strategies, which in turn serve to guide the design and implementation of various action programmes to ensure that a certain objective/result is being achieved.

Obviously, this is the wrong perspective for understanding Swedish aid policy. The primary aim is not to function as a tool for ensuring aid effectiveness. One reason is that the relationship among the six objectives is not clarified, and cannot be clarified in any meaningful sense since the relationships are too many and are sometimes contradictory. The position taken in some of the Budget Bills that the six objectives are to reinforce each other in order to achieve poverty reduction – is a too simplistic a position. The objectives are too wide and all-embracing to have any relevance for strategy formulation and operations in the field. Thus, aid policy is not intended to

guide Swedish aid in making an effective contribution to poverty reduction in developing countries.

It is therefore not surprising to find that Swedish aid policy formulation has always been strongly influenced by factors external to the operational reality of aid. What goes on in the international development debate has always been an important source of inspiration. Sometimes development research generates new facts about conditions in the developing world, or new theoretical models are developed, that catch the interest of the aid community. For example, it is illuminating to see how Swedish aid policy, in a short period of time, has moved from a 'dependentista' understanding of underdevelopment to a position where free market forces are seen as the key to development.

If we understand policy within this narrow organisational context, one might wonder whether it is important for Swedish development aid to have a poverty reduction objective of this nature? It could be argued that since the policy has little to do with the reality of aid, it will not matter very much. Nevertheless, emphasising poverty reduction rather than welfare offers clear guidelines for identifying recipients of Swedish aid. If consistently applied, such guidelines could have a direct bearing on aid effectiveness. The argument for this runs as follows. What aid can accomplish in terms of poverty reduction is largely determined by the development strategy pursued by the recipient government. Thus, it is up to the social and economic policies of the recipient government to ensure that the welfare gains from economic growth are distributed in a fair and equitable way. Channelling aid to countries where poverty reduction is not a political priority will, for the aid agency, mean bypassing the host government entirely or opening up a strategy based on policy dialogue, or strong intervention into the recipient country's domestic political affairs. None of these options can be expected to create the best conditions for high aid effectiveness.

The other approach to policy offers a somewhat wider perspective in which aid policy is judged within the realm of domestic and foreign politics. Development aid is one of many political issues in Sweden. Even if it has remained more or less uncontested over the years, this does not mean that aid does not need political support. There are many stakeholders and each has its own expectations and interests linked to development aid. The list of stakeholders can be very long: the political parties, Swedish industry, the churches, 'Mr. Johansson' the ordinary Swede, etc. In order to legitimize aid and enlist as many supporters as possible, it becomes necessary to define the purpose of aid in such a way as not to exclude any of the potential stakeholders. Poverty reduction as an overarching goal serves this purpose in an

excellent way. Few can oppose an objective which aims at raising the standard of living of the poorest and most vulnerable groups in the world. This legitimizing function is further emphasised by the six more specific objectives, which cover virtually every aspect of a society's development. Consequently there is something for everybody to recognise and approve of.

Thus, within this perspective Swedish aid policy is not a management tool. It is quite far removed from any operational concerns. The purpose of Swedish aid policy is to rally support for development aid in order to make it an uncontested political issue. The relevance/value of the policy then has to be judged by the extent to which there has actually been strong political support for development aid. Obviously the aid policy has been quite successful in this regard, as expressed for example by the commitment to the 1% GNI target. There has been strong political backing for development aid as witnessed, for instance, in the stable and large allocations from the state budget. For a long time development aid occupied a uniquely protected position compared with other public activities.

The extent to which the aid policy has successfully contributed to poverty reduction is much less obvious. The available evidence suggests rather that there is a great divide between policy and practice. Only in the case of the Swedish programme countries is it possible to see the reasonably consistent application of an aid policy the supreme goal of which is poverty reduction.

In practice, Swedish aid policy is intimately linked to Sweden's foreign and domestic policy concerns. Swedish aid to Eastern Europe is a good example of foreign policy concerns overriding the fundamental principles of aid policy. Aid to countries such as Malaysia, Chile, represents other cases of an inconsistent application of the aid policy. They are instead good examples of the consistent application of Swedish commercial interests.

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Overseas Development Institute  
Portland House  
Stag Place  
London SW1E 5DP  
UK

Tel: +44 (0) 171 393 1600

Fax: +44 (0) 171 393 1699

Email: [publications@odi.org.uk](mailto:publications@odi.org.uk)

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