

Following the money: Examining the evidence on ‘pro-poor’ budgeting

By Rebecca Simson

The global development community made the reduction of poverty its primary objective in the late 1990s. Advocacy campaigns in both the global North and South had drawn international attention to the decline in public service provision and the rise in inequality in the world’s poorest countries as a result of structural adjustment policies and crippling debt burdens. This explicit focus on poverty was a watershed: by adopting the discourse of poverty reduction, development institutions re-acknowledged the importance of public expenditure for poverty alleviation. The development debate shifted from how much (or rather how little) to spend to balance the budget, to what it should be spent on to improve public welfare and promote growth.

Governments, whose role had been cut back in the 1980s and 1990s, gradually found themselves back in business – the business of poverty reduction. The international community rallied around the need to increase the volume of aid and government spending on ‘pro-poor’ services, notably basic social services such as health and education. Creditor countries agreed to cancel low-income country debt on the condition that savings were channelled to services for the poor.

Yet, while the intent of the poverty reduction agenda was to ensure that public resources were allocated equitably, global monitoring efforts have reported primarily on the volume of resource mobilised or have assessed spending in particular sectors in isolation. There have been few attempts to evaluate whether the global poverty reduction effort reoriented public spending in the way intended, or whether these changes to the composition of the budget were drivers of poverty reduction.

This Background Note revisits the history of the pro-poor expenditure movement and reviews what we currently know about its effectiveness. After more than a decade of international attention to poverty reduction, this Note calls for a stronger focus on the empirical evidence of public expenditure effectiveness: evaluations of poverty reduction policies must move beyond the processes that shape budgets to consider whether the composition of expenditure has become more oriented towards poverty reduction.

While the poverty reduction agenda has coloured the development discourse in broad terms, this Note will focus on the Heavily Indebted Poor Country (HIPC) Initiative, which links debt relief explicitly to a reallocation of resources to poverty-reducing expenditure in low-income countries.

First, we discuss what we know about expenditure composition in HIPCs and how so-called poverty-reducing expenditure has been tracked to date, before outlining the conceptual frameworks that have shaped the poverty reduction agenda. We show that while development agencies have been quick to jump on the poverty reduction bandwagon, there is still considerable disagreement about what constitutes pro-poor policies and how these should be promoted.

The Note then discusses the various ways in which development agencies have implemented the poverty reduction agenda. It considers how the World Bank and IMF-promoted Poverty Reduction Strategy Papers (PRSPs) sought to bring together the theoretical justifications for poverty-reducing expenditure with a political process that would ensure greater accountability between state and citizens. We conclude with a brief discussion of approaches to the evaluation of the pro-poor expenditure agenda and a call to reinvigorate expenditure policy research to

enrich the many remaining unresolved debates about public expenditure and development.

Box 1: A note on terminology

This Background Note uses the terms pro-poor, poverty-reducing and poverty-targeting interchangeably. Arguably, pro-poor has a stronger redistributive implication (policies that are better for the poor than for the non-poor) than the terms poverty-reducing and poverty targeting. But, given that the broader poverty literature does not make this distinction consistently, this paper will regard them as interchangeable.

Setting the stage: Assessing expenditure composition since HIPC

The poverty reduction agenda is perhaps best exemplified by two global initiatives that came to fruition in the early 2000s and that placed public expenditure and aid at the service of the poor. The Heavily Indebted Poor Country (HIPC) Initiative, led by the World Bank and IMF, linked debt relief explicitly to a public expenditure policy focused on poverty reduction in heavily-indebted low-income countries (LICs), while the Millennium Development Goals (MDGs) committed donor agencies to channel funds to poverty reduction outcomes.

Launched in 1996, HIPC provided a framework for all creditors to provide debt relief, recognising that debt payments were constraining growth and poverty reduction. One requirement of the programme is the development of Poverty Reduction Strategy Papers (PRSPs) that identify a set of pro-poor priority sectors and track funding for them to demonstrate that savings from debt relief are channelled to pro-poor priorities (IMF 1999 and 2011). To date, 36 countries have benefited from HIPC relief – 30 in Africa, one in Asia and five in Latin America (World Bank, 2011).

In parallel with the IMF and World Bank-driven PRSP agenda, the UN developed the MDGs, which also emphasise global poverty reduction and bind donors to providing aid linked directly to attainment of higher level development outcomes. The seven MDGs that track country progress cover extreme poverty, primary education, gender equality, child and maternal mortality, combating diseases and environmental sustainability. There have since been efforts to cost the MDGs and exercises to align aid to such costing plans (Devarajan et al., 2002; Atisophon et al., 2011).

Despite this strong focus on costing and fundraising for poverty reduction policies since the late 1990s, there is surprisingly little evidence that government expenditure composition has

changed in response to it. Leaving aside the conceptual difficulties of defining poverty-reducing expenditure for the time being, knowledge about expenditure performance is constrained by the practical difficulties of collecting and synthesising expenditure data. While there are many studies on expenditure performance in particular countries and sectors, comprehensive and internationally comparable data are scarce. The main sources are the World Bank's World Development Indicators and the IMF's Government Finance Statistics, but their coverage is patchy.

At country-level many governments do report outturns in the national budget and annual financial statement, yet these reports are rarely accessible internationally and are difficult to reconcile. IMF country statistical appendices and World Bank Public Expenditure Reviews provide further country-level sources, but coverage is irregular.

With the launch of HIPC, development agencies recognised the need to strengthen expenditure tracking mechanisms. A World Bank and IMF assessment from 2001 found that only two out of 25 HIPCs had the capacity to carry out expenditure tracking and reporting satisfactorily (World Bank and IMF, 2001). Realising the time it would take to upgrade expenditure tracking systems in HIPCs, the World Bank and IMF promoted a transitional solution: countries were to track a selected set of budget items pre-defined as 'poverty-reducing' while they developed greater capacity to track budget expenditure comprehensively. This approach to poverty-reducing expenditure tracking remains one of the main measures of HIPC progress.

In recent years, however, there has been a renewed interest in strengthening expenditure tracking systems. A new World Bank initiative, BOOST, seeks to rectify data deficiencies by working with Ministries of Finances on a voluntary basis to establish publically-available budget and outturn databases (Kheyfets et al., 2011). This may improve the data availability for comparative expenditure analysis in future years.

What we know about expenditure performance in low-income countries

Some basic observations can be made about expenditure performance in LICs.

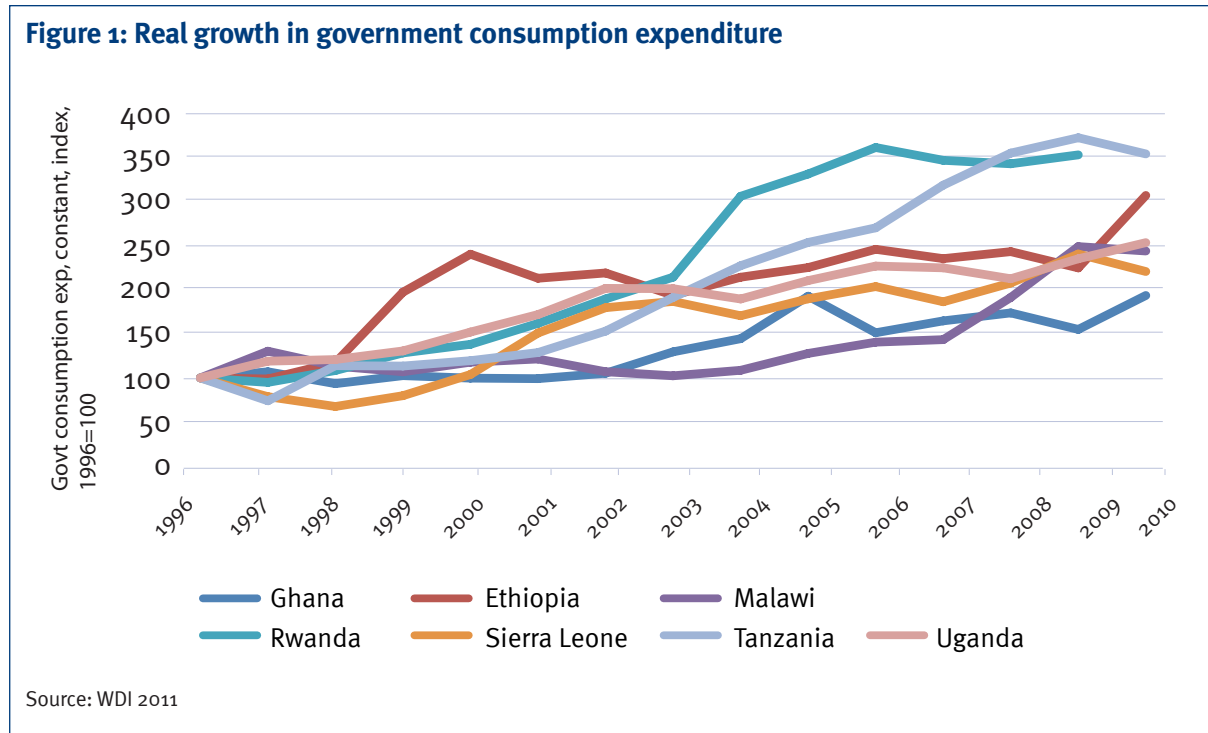
First, the conditions for scaling up the resources devoted to poverty reduction have been favourable over the past 15 years. LICs have experienced a period of high economic growth since the late 1990s, averaging 5% since 2000 (WDI, 2011). Fiscal space has expanded rapidly in many HIPCs as a result of rapid growth, improved revenue collection, debt forgiveness

and increases in external assistance. In addition, a number of post-conflict HIPCs have benefited from a peace dividend as military spending falls.

Figure 1 illustrates the growth in government consumption expenditure in a sample of HIPCs since 1999. In each one, government expenditure doubled in real terms; in some countries, such as Tanzania and Rwanda, expenditure more than tripled.

However, disaggregated expenditure data are required to understand changes in the composition of the budget. The IMF and World Bank track the growth in country-identified poverty-reducing expenditure and aggregate the data to demonstrate the effectiveness of HIPC. Figure 2 from the IMF and World Bank (2010) shows average spend on poverty reduction rising from 6% of GDP in 2001 to 10% of GDP in 2010, against

Figure 1: Real growth in government consumption expenditure



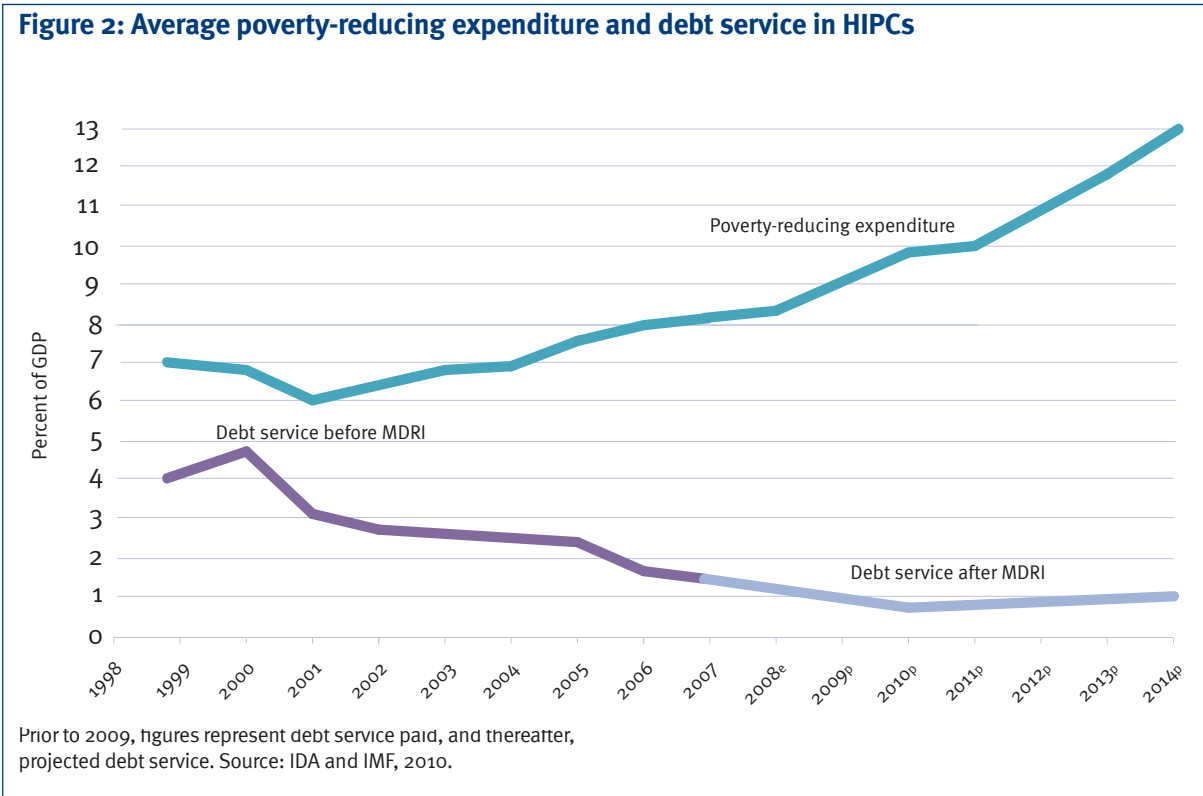
Furthermore, government expenditure has been matched by a rapid growth in official development assistance; ODA to Africa roughly doubled between 2000 and 2010 in real terms (OECD CRS, 2012). An understanding of how expenditure patterns have evolved requires the inclusion of foreign aid in the analysis. However, the weak quality of aid data and the challenge of mapping aid to government classification systems make it hard to compare and contrast the impact of government versus aid expenditures. Most aid to LICs is channelled through projects as opposed to budget support, which means that funds are programmed and spent outside government systems (OECD Paris Declaration Survey, 2011).

Behavioural economics suggests that changes to the budget composition should be easier to make when the overall resource envelope is expanding, as this allows all interest groups to gain in absolute terms even if some groups are gaining more than others (Kahneman, 2011). We can hypothesise that rapid expenditure growth and strong global attention to poverty reduction provide good preconditions for a change to the composition of expenditure in favour of the poor.

a corresponding drop in debt service payments. However, this opaque measure of poverty-reducing expenditure is hard to evaluate: country definitions of poverty-reducing expenditure vary widely and definitions sometimes change from year to year. A more systematic review of categories of expenditure would be required to understand how and whether this growth is likely to have benefited the poor.

A large body of literature assesses expenditure performance in particular countries or sectors. There is a rich set of case studies, particularly at sectoral level, that probe the correlation between growth in expenditure and development outcomes in various contexts (such as the World Bank Public Expenditure Reviews). ODI's Development Progress Stories have examined successful development events and analysed the factors that contributed to their success, including financing. The stories cite recent evidence from Rwanda's health sector, Uganda's water sector and Ethiopia's education sector which shows that growth in financing has contributed to progress (Rodrigues Pose and Samuels, 2011; O'Meally, 2011; Engel and Rose, 2011).

Figure 2: Average poverty-reducing expenditure and debt service in HIPCs



Data collected by global organisations, such as UNESCO in education and WHO in health, allow for some analysis of cross-country expenditure trends. In an effort to unpack poverty-reducing expenditure growth, Figures 3, 4 and 5 compare trends in health, education and military expenditure between 1999 and 2009 for a sub-set of HIPCs. Given the prominence of basic social service provision under HIPC and the MDGs, health and education expenditure is often used as a proxy for the pro-poor orientation of a country budget, while falling military expenditure is assumed to free up fiscal space for service delivery.

Comparing the average sector share to GDP between 1999 and 2009 does suggest some ‘improvement’ in expenditure composition. Health grew by an average of 30% and education by an average of 45%, while military expenditure fell by an average of 34% between 1999 and 2009. But a review of the underlying data shows great variations within and among countries, shedding doubt on whether these growth rates are evidence of improved budget practices or unsystematic expenditure fluctuations driven by particular outliers. Measuring progress in the percentage of GDP may overstate the improvements, as the revenue to GDP rate improved in many LICs between 1999 and 2009 (WDI, 2011).

Figure 3: Health expenditure, public (% of GDP) (WDI 2011)

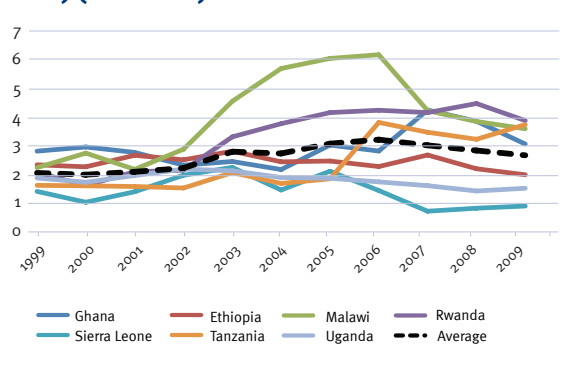


Figure 4: Education expenditure, public (% of GDP) (WDI 2011)

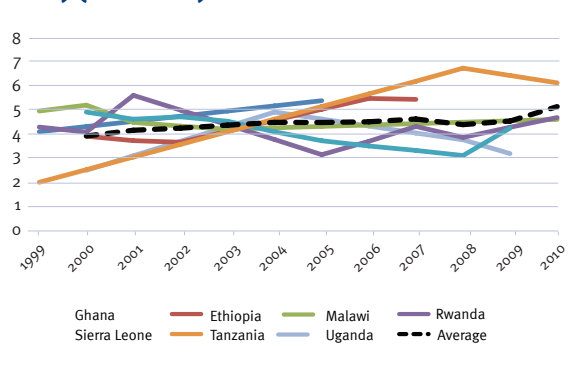
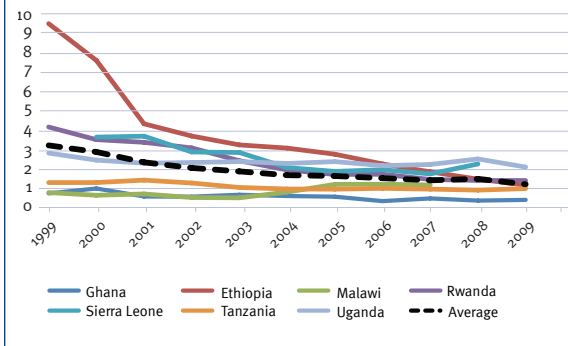


Figure 5: Military expenditure (% of GDP) (WDI 2011)



Source: WDI 2011: IMF Article IV Consultation Reports and Statistical Appendices. Missing values have been imputed.

It is often assumed that basic healthcare and primary education expenditure has been increasing in LICs, yet Figures 3 and 4 suggest that there is little uniformity across countries. While country-defined poverty-reducing expenditure has most certainly risen in per capita terms, it is not obvious whether this is due to the rapid growth in the overall resource envelope or a reallocation of resources from 'low' to 'high' priority sectors. This distinction is important: if poverty-reducing expenditure growth has merely kept pace with overall expenditure growth then the pro-poor orientation of spending has not increased. This would cast doubt on whether international support for poverty-reducing policies has had any effect.

Leaving aside the weak evidence base about expenditure composition, the data presented above also beg a more fundamental question: what is meant by poverty reduction and how should it be measured? The poverty reduction agenda has often been associated with basic social service provision, but does the evidence support this proposition? The following sections will outline different definitions of what constitutes a pro-poor budget and how development practitioners have sought to promote them. Understanding these theories of change is critical to evaluating the success of the HIPC initiative.

Conceptual frameworks: What is pro-poor expenditure?

In the 1990s there was a strong recognition that growth in itself is not necessarily developmental. The relative neglect of poverty during the 1980s and the subsequent decline in human development indicators in many poor countries led to a reassessment of the objectives of structural adjustment, which focused on economic growth and efficiency. A large body of

literature concluded that while growth is important, it is by no means the only determinant of poverty reduction (Aturupane et al., 1994). Development agencies have, therefore, turned their attention to how public policy and expenditure can ensure that growth benefits the poor.

The literature on poverty reduction policies is, however, complicated by a lack of consensus about its definition. One strand of literature focuses on growth and expenditure that redistributes income, while another focuses on growth and expenditure that leads to poverty reduction in absolute terms (regardless of its distributional outcomes) (Lopez, 2008). A third approach to pro-poor budgeting pays less attention to the objective basis for decision-making and instead focuses on a budgetary process that enables the poor to influence the allocation of resources.

Poverty and inequality: Re-acknowledging the role of public policy

At the root of these disagreements about poverty reduction lies a disagreement about the relationship between inequality and development. This debate stems back to Kuznets's famous hypothesis (1955) that inequality rises in the early stages of development and then starts to decrease once a certain average income is reached. Kuznets hypothesised that this resulted from the high returns to capital during industrialisation, and low returns to labour stemming from the release of under-used labour in agriculture. However, after a certain level of development is reached, this relationship reverses. Kuznets's argument can be interpreted to imply that countries need to accept a period of high inequality in the interest of long-term development.

However, while Kuznets's hypothesis holds true for most parts of Europe and Latin America, other parts of the world, notably Asia, have had prolonged periods of growth without rising inequality. This has led researchers to conclude that rising inequality during a period of rapid development is not inevitable: political factors can contribute to more equitable growth (Acemoglu and Robinson, 2002). There is also a growing evidence base that argues that the initial level of inequality has a negative effect on long-term growth (Alesina and Rodrick, 1994; Benabou, 1996). Benabou maintains that high inequality leads to insecure property rights and a reluctance to save and invest, which lowers long-term growth rates. With the rise of endogenous growth theory, a number of studies demonstrate a correlation between human capital (particularly the education and health status of the general population) and growth, suggesting that broad-based service provision was growth promoting (Barro, 1996; Sala-i-Martin, 1997). Some

proponents of redistribution, therefore, see this both as an end and as a means to faster long-term growth and development.

Redistributive expenditure policy: Why it became the main vehicle for poverty reduction

Pro-poor expenditure prescriptions were driven by concerns over rising inequality and the marginalisation of the poor as a result of fiscal policy during the 1980s that focused exclusively on economic growth. The IMF has advised governments, traditionally, to reduce the domestically-financed fiscal deficit to avoid crowding out the private sector, and to cut wage bills and transfers while increasing investment (Gupta et al., 2002).

But with an increased focus on redistribution as a legitimate government policy in the 1990s, advice from the international development institutions started to change. It was recognised that expenditure policy is the main instrument for income redistribution in developing countries, as progressive income tax (the main redistributive policy in industrialized countries) is less effective in low-income contexts (Van de Walle, 1995; Boadway and Marchand, 1995). Therefore, public spending that reaches poor people is one of the most effective tools to fight inequality.

Research on the optimal degree of targeting found that in countries with high poverty and weak administrative capacity, broad targeting through the goods and services widely used by the poor is preferable to narrow targeting, as political economy constraints and administrative costs undermine the effectiveness of narrowly focused programmes (Van De Walle, 1995). A large evidence base shows that spending on basic services such as primary education and primary healthcare tends to be progressive, as well as social cash transfers and public employment schemes (Boadway and Marchand, 1995).

Absolute poverty reduction: The return of the growth agenda

While the arguments in favour of redistribution gained traction in the late 1990s, governments and donors began to move away from a narrow focus on progressive spending in the 2000s towards a definition that addresses absolute poverty reduction, whether through direct or indirect means. By this definition of poverty reduction, it is sufficient for the absolute poverty rate to fall, regardless of whether inequality is falling or rising (Lopez, 2008).

Many have argued that the HIPC Initiative's excessive focus on social sectors crowded out long-term growth-enhancing investments such

as infrastructure, agriculture and private sector development, which may depress growth rates and the absolute reduction in poverty in the long-term (Killick, 2004; Paternostro et al., 2007; World Bank, 2003; World Bank, 2005). Paternostro argued that proponents of the poverty agenda created a 'false dichotomy' between growth and poverty reduction that ignored the long-term impact on growth-enhancing investment (2007).

Critics have pointed out that social spending is only beneficial under certain economic conditions, such as a growing formal labour market that absorbs and rewards a higher skilled workforce. Social spending may, therefore, be subject to diminishing returns.

This broader pro-poor growth agenda, which looks at both the direct and indirect impacts of spending on poverty reduction, increases the complexity of monitoring and evaluation. It places more emphasis on country context and opens the door to a large and contested debate about the drivers of growth, perhaps best exemplified by the popularity of 'binding constraints analysis', developed by Hausmann, Rodrik and Velasco, which has been used by many governments to analyse the country-specific constraints to growth (2004). This requires a different approach to the evaluation of the pro-poor agenda – one that recognises the country context and takes a long-term perspective.

Food, fuel and financial crises: Protecting the poor from economic shocks

The effects of global economic instability on developing countries in the late 2000s added another dimension to the poverty reduction debate. Rising food and fuel prices in 2008 and the financial crisis of 2008/2009 had a negative impact on many LICs, initially through rising import costs and later through a contraction in export demand and a decline in foreign direct investment (FDI) and remittances. This threatened to erode the gains made in absolute poverty reduction since the 1990s. However, in contrast to previous crises, many LICs had healthy macroeconomic balances that allowed them to pursue countercyclical fiscal and monetary policy in response to these global shocks (IMF and World Bank, 2010). These events brought expenditure policy to the fore once more, only this time attention focused not on chronic poverty, but on economic vulnerability.

Two particular spending priorities gained traction among development practitioners: there was a recognition that investment in agriculture had stagnated since the 1970s, which was contributing to high food prices and food insecurity (World Bank, 2008), and that LICs lacked adequate social protection programmes, such as cash transfers, cash for work,

and food distribution, that could protect vulnerable households from economic shocks (IMF, 2010; IMF, 2011). Development agencies now encouraged governments to focus on the short-term impact of public spending, particularly the need to bolster aggregate demand, prevent rising unemployment, and protect vulnerable households from deteriorating terms of trade.

Strengthening the budgeting process for poverty reduction

Putting the debate about the definition of poverty reduction to one side, and assuming that economists can reach an agreement about the optimal composition of expenditure, practitioners still face the difficulty of persuading politicians in developing countries to formulate budgets that prioritise such prescriptions. Recognising this challenge, political economists have suggested that the political process through which the budget is negotiated has a greater impact on expenditure composition than the soundness of technical advice.

Public expenditure composition is, at heart, a political matter. Political economists have argued that the basis for expenditure decisions – the principles that should determine the allocation of resources – is subordinate to the process by which expenditure allocations are made (Fozzard, 2001). They argue that a ‘good’ budget is anchored in a strong democratic process that fairly balances and aggregates the various preferences of all citizens. In essence, political structure, rather than persuasive economic research, is the true driver of expenditure policy reform.

A large body of political economy research has demonstrated that politicians do not always have incentives to provide poverty-reducing goods and services (Keefer, 2005; Campos and Pradhan, 1996; Fozzard, 2011). It is these political market imperfections, rather than a lack of knowledge about the optimal expenditure composition for poverty reduction, that encourages policy-makers to allocate funds to narrow interest groups at the expense of the many. This literature argues that political market imperfections, such as information asymmetries and principal-agent problems, give politicians the scope to pursue their individual or organisational interests at the expense of the common good.

Such imperfections are overcome by institutions (rules, norms and procedures) that restrain policy-makers from pursuing private gains. However, these are only effective if they are underpinned by transparency and accountability structures, such as Parliamentary oversight, independent courts, and a free press, which discourage political actors from

violating the rules (Campos and Pradhan, 1996). These institutional processes, that bring the voices of ordinary citizens to bear on policy-making, tend to be particularly weak in developing countries.

This school of institutional economics has gained traction since 2000 among development practitioners and agencies. Its proponents have argued that the international poverty reduction agenda cannot rest solely on sound technical arguments: promoters of development need to influence the bargaining power of the interest groups that determine budget outcomes.

These concerns have drawn attention to the need to strengthen the public financial management systems that determine how public resources are allocated and tracked, alongside a focus on a sound basis for resource allocation decisions (Fozzard, 2001). Researchers and civil society groups have argued that aid should be used to strengthen accountability structures that allow citizens to hold their elected officials to account, as shown by the recent decision by the UK Department for International Development (DFID) to allocate 5% of all budget support funds to strengthening local accountability (DFID, 2009).

Linking theory to practice: How development agencies implemented the pro-poor expenditure agenda

Influenced by these various theories about the importance of public spending for poverty reduction, the international donor community launched the HIPC Initiative in the late 1990s to link debt relief and international support explicitly to the prioritisation of pro-poor expenditure categories. Aware of both the importance of a strong economic basis for public expenditure allocation and the political economy challenges to expenditure reform, the World Bank and IMF devised PRSPs as a way to bring together rigorous economic methods to assess poverty needs and the participatory approaches and transparency requirements that would help the public to hold elected officials to account. PRSPs were intended to serve as a medium-term policy framework that would set expenditure priorities and be used to monitor performance. They identified a set of tangible pro-poor priorities that the government and donor community committed to fund. In some cases, aid was conditional on a rise in government spending for these priorities. For example, the HIPC agreements require governments to channel budgetary savings to poverty-reducing expenditure in direct proportion to the volume of debt relief.

How countries defined pro-poor expenditure

Guidelines to identify poverty reduction priorities were, in practice, quite loose. Pro-poor expenditure came to be identified in broad and unselective terms, usually spanning all expenditure within a certain sector or major programme. Although PRSPs are country-specific, countries have tended to prioritise the same basic ingredients; all HIPCs include primary education and basic healthcare in their respective definitions and many have included agriculture and rural infrastructure (Paternostro et al., 2007).

Given that the focus of the spending prioritisation process was the living conditions of the poor, it is not surprising that countries settled on tangible expenditure items that reached the poor in a direct and tangible way, be it rural schools or feeder roads. An early assessment of HIPC from 2003 that used a sample of 13 countries found that on average countries intended to devote 65% of debt relief savings to social sectors (49% for health and education), 13% to rural development, 8% to infrastructure and 6% to governance and structural reforms (World Bank, 2003, p. 34).

As box 2 illustrates, while many countries have focused on the same broad sectors, the level of disaggregation of their tracking mechanisms varies. Some countries focus on specific programmes within the health and education budgets, while others include the entire sector budget in their definition of poverty-reducing expenditure. As a result, the share of the budget regarded as pro-poor varies significantly between countries, thereby reducing the relevance of cross-country comparisons.

Special mechanisms were instituted subsequently to track the growth of expenditure on pro-poor items. A line titled ‘poverty reduction expenditure’ often features in government outturn reports and IMF article IV consultation tables. Some countries, such as Uganda, Tanzania and Ghana, went further and instituted virtual funds that gave special preference to pro-poor expenditure through protection from budget cuts, careful tracking, and performance monitoring. Donors later used these tracking mechanisms to show how debt relief and budget support funded a country’s priority sectors, at least in theory.

To its credit, the World Bank also undertook more rigorous expenditure analysis through its Public Expenditure Reviews (PERs): large research undertakings that analyse the composition of public expenditure in particular countries in depth and provide country-specific recommendations that inform policy dialogue at country level. PERs (which pre-date and are not linked explicitly to HIPC) provide a more nuanced guide to good public expenditure, focusing a range of fiscal objectives (Pradhan, 1996). As a result, their impact is harder to assess and

Box 2: Definitions of poverty-reducing expenditure in selected countries

Ethiopia: health, education, agriculture, roads and food security (23% of expenditure in 2007/08).

Ghana: basic education, primary health care, poverty-focused agriculture expenditure, rural water expenditure, feeder roads, rural electricity (roughly 40% of expenditure in 2009).

Mozambique: Education, health, HIV and AIDS, infrastructure development (roads, sanitation and public works), agriculture and rural development, security and public order, governance, judicial system, social actions, labour and employment, mineral resources and energy (Mozambique has set a target of 65% of expenditure, although it has not always been met).

Tanzania: Education, health, water, agriculture (research and extension), lands, roads, judiciary, ACAIDS (a government agency created in 2001 to coordinate AIDS-related interventions). Roughly 45% of expenditure in 2003/04.

Uganda: Primary education, primary healthcare, water and sanitation, rural roads and agriculture extension (roughly 50% of expenditure in 2010/11)

Zambia: Health and education (roughly 30% of expenditure)

IMF Staff Reports, various years

findings are difficult to compare across countries. PERs in the 2000s have tended to be sector-specific, diverting attention away from the overall composition of expenditure (World Bank, 2003).

Critiques of the PRSP approach: Conceptual and practical challenges

Although PRSPs have been produced successfully in a large number of LICs and embraced and used by governments to signal a commitment to development, critical voices have highlighted conceptual and practical problems that shed doubt on whether they can yield better budgets. One set of voices has been critical of the quality of the PRSP process, without necessarily rejecting the PRSP approach as such. Another and more fundamental challenge comes from critics who dispute the value of an externally-dictated process of expenditure prioritisation.

A common critique of PRSPs is that they lack sufficient prioritisation and specificity. It has been noted that PRSPs are frequently wish lists without links to a realistic resource envelope. While they have helped to articulate broad government goals, PRSPs lack the operational framework necessary to translate these goals into policy actions (World Bank 2005a; World Bank and IMF, 2005b). As a result, the difficult task of prioritising among competing demands is deferred to the budgeting process.

In addition, the focus on broad objectives and goals has often led to a superficial focus on pro-poor priority sectors. Critics have pointed out that identifying health and education as protected sectors will not necessarily benefit the poor: how funds are allocated among various health services, among regions, and whether the expenditure is efficient, will determine whether the spending is truly progressive.

The strong focus on social service provision in most PRSPs has been criticised for diverting attention from overall expenditure efficiency (Paternostro et al., 2007). Some have argued that sector interests came to dominate the PRSP agenda at the expense of broader expenditure efficiency. One sign of this is the fact that many countries have signed international accords that commit them to devoting an impossibly high share of their budgets to social service provision (Hagen-Zanker and McCord, 2011). Political economists have also noted that donors' preference for social sector expenditure may be driven, in part, by a need to demonstrate tangible results to taxpayers in developed countries. Clear outcomes such as school enrolment and maternal healthcare services are easier to 'sell' to voters (Molenaers, 2011).

Other critics of PRSPs have challenged their practice of identifying and tracking priority sectors. Bevan (2007) shows that identifying some expenditure items as high priority and others as low priority suggests a failure in the budget process. If the budget process were working correctly, the overall composition of expenditure would be one that optimises budget outcomes. Every expenditure category (whether general administration, defence or public health) would be of equal importance for poverty reduction at the margin. Prioritising sectors is, therefore, akin to conditionality: a second-best approach that addresses the symptoms rather than the causes of poor resource allocation.

Challenging the PRSP practice of identifying priority sectors, some researchers have called for a return to an objective economic basis for decisions on resource allocation that does not protect anointed priority sectors to the detriment of overall budget efficiency (Paternostro et al., 2007; Bevan, 2007).

Finally, a broad range of stakeholders has raised the thorny question of domestic ownership. While the PRSP process is designed to elicit broad-based domestic engagement and ownership, in practice PRSPs have often become the terrain of a small group of government technocrats (Booth, 2005; Dijkstra, 2011). Some have argued that participation and ownership, by their very nature, exclude conditionality and that the PRSP project is itself flawed. Others have criticised international donors for not devoting sufficient resources and attention to

the difficult process of engaging with civil society, and colluding with the national authorities to tick the box on participation through stage-managed engagement with a narrow set of civil society actors (Booth, 2005).

These various critiques share a common focus on inputs, criticising the process of drafting the PRSP and its content. To move this debate about the effectiveness of the poverty reduction agenda beyond the realm of theory, there is a need to understand if and how it has had an impact on expenditure policy.

Towards an evaluation of the poverty-reducing expenditure initiative

This Background Note has sketched out some of the theoretical underpinnings and debates that have shaped the poverty reduction agenda and how these have influenced donor efforts to promote pro-poor policies in low-income countries. However, policy statements and budget documents are meaningless unless they are reflected in actual spending patterns: expenditure is the true expression of a government's policies. As a result of limited data availability, however, evaluations of 'pro-poor' policy performance have tended to focus on upstream processes rather than actual spending patterns, or the experiences of particular countries. This paper calls for a renewed focus on the collection and analysis of cross-country public expenditure data in order to evaluate the effectiveness of global poverty reduction efforts.

The existing literature that evaluates the poverty reduction agenda still has many gaps. Many of the existing evaluations of the pro-poor budgeting and broader poverty reduction agenda were written in the early 2000s when the approach was relatively new (World Bank, 2003; Booth, 2005; Foster et. al., 2002). They do not cover a period long enough to evaluate whether a pro-poor approach to budgeting has truly taken root. In the absence of quantitative time series data on which to base the analysis, much of this work has focused on understanding and critiquing the processes by which governments set and monitor expenditure priorities.

Various definitions of poverty reduction have spawned different approaches to evaluate the poverty orientation of public expenditure, and there is scope to reconcile these. One strand of research focuses on the distributional impact of spending and assumes that 'good' spending is progressive. Using impact evaluations and or incidence analysis tools, this quantitative approach to expenditure analysis analyses the share of resources that benefit the poor (Demery, 2003). Evaluating the extent to which public resources are progressive allows for clear measures

of a government's commitment to poverty reduction. The drawback however, is that only certain types of spending, where the beneficiary can be clearly identified, can be evaluated in this manner.

A second approach to poverty reduction focuses on the growth-poverty reduction nexus. Binding constraints analysis and other growth analytics move away from a focus on narrow progressivity to consider how and whether public expenditure is consistent with a structural transformation of the economy that can sustain development and poverty reduction in the long run.

A third set of research anchored in political economy and public sector reform, rather than poverty economics, places less focus on expenditure composition and uses the poverty banner to draw attention to the quality of expenditure systems more broadly. Skirting the difficult question of what actually constitutes pro-poor spending, many researchers assume that poverty reduction is best served through general public expenditure management reforms or processes that strengthen the hands of reformers, increase transparency and accountability, reduce discretion, introduce rules-based approaches, and demarcate the responsibilities of politicians from those of the civil service (Fozzard, 2001; Foster et al., 2002). While this approach has its merits, it avoids the difficult question of whether there are objective criteria by which to measure the poverty orientation of a budget.

Almost 15 years have elapsed since the poverty agenda gained traction. This is the moment to reinvigorate this debate by analysing expenditure composition in developing countries over a decade-long period. Three broad questions should be considered.

- Has expenditure composition changed over the past decade?
- If so, are these changes correlated with improved development outcomes?
- What has driven the change?

While we may never be able to answer these overarching questions definitively, we can continue to chip away at various aspects of them. Three proposed research questions could shed light on the relationship between the international poverty focus and expenditure performance.

How have education and health spending evolved and what has driven their growth?

The poverty reduction agenda has promoted access to basic social services, notably healthcare and education. Critics of this focus have argued that it has crowded out other important priorities, such as infrastructure investments. Yet, despite this debated

trade-off, it is not obvious from the available data that governments have prioritised social services over other expenditure items. A systematic analysis of sector expenditure shares across HIPCs and over time would reveal the extent to which social services have crowded out other priorities, and whether or not countries with large education and health budgets share any common characteristics.

Another interesting dimension would be to consider the impact of ring-fencing on budget prioritisation. While some HIPCs earmarked the entire education and health sector budget as priority expenditure, others focused on particular programmes, such as primary education and healthcare. Does the level at which funds are ring-fenced influence intra-sectoral allocation patterns?

Do international trends in expenditure priorities influence country-level budgets?

Advice from development agencies about the optimal composition of public expenditure has evolved over time. The late 1990s and early 2000s saw a strong focus on basic service delivery. This advice was augmented in the mid-2000s to include growth-enhancing infrastructure. The response to the price and growth crises of the late 2000s placed new emphasis on agriculture and social protection. Mapping the share of expenditure allocated to these various international priorities, and measuring whether or not trends in development advice have a direct bearing on allocations, would be an important first step to understanding whether and how international 'wisdom' influences budget priorities in developing countries. If there are identifiable trends across countries, identifying the countries most 'susceptible' to international advice could shed further light on the country characteristics that are correlated with reform effort.

Public financial management reforms: did downstream deliver what upstream promised?

Using data from Public Expenditure and Financial Accountability (PEFA) assessments, Andrews (2010) has shown that developing country governments tend to produce better plans and budgets ('upstream' public financial management processes), than they execute them ('downstream' processes). As plans and budgets are only useful if they are credible, such reforms should be judged not only on their impact on systems and processes, but also on how well these systems deliver public goods and services. Analysing the correlation between the strength of upstream processes and budget credibility (using disaggregated expenditure data) could improve our understanding of the successes (or failures) of public financial management reforms.

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