



Financing ICT for development: the EU approach

This paper outlines the European Union's positive approach to financing ICT as an important and integral part of development. It covers EU members' support both bilaterally and through the European Commission.



The EU is the world's largest donor. EU overseas development funding has been increasing since 2000 and in May 2005 the EU made a commitment to double its aid budget by 2010. An increasing proportion of aid goes to developing country governments directly to support their own development plans and budgets. They choose how much to allocate to ICT. Priorities are set locally and EU donors respond to these priorities.

ICT (new and old technologies – telephones and broadcasting as well as the internet) are an important element of development in many areas such as education, health, economic growth and governance. Most countries seek support for ICT as an integral part of development plans in these areas, while fewer seek support specifically for ICT. Most EU members support this approach, and ICT forms a significant part of many EU funded projects.

ICT needs infrastructure, and the EU supports this as part of the new Infrastructure Partnership with Africa due to start this autumn. But hardware alone does not make an effective information system, and many other factors also receive increasing support – such as training, policy and planning, development of applications and content, and improvement of environmental conditions such as energy and education.

ICT infrastructure has largely been funded by the private sector, since the 1990s. The private sector has proved itself more efficient than governments in telecommunications service provision: private providers are more flexible and able to keep up with technological change, and competition keeps costs and prices lower. One role of governments, with donor support, is therefore to attract private investment. This sometimes requires financial support such as low-interest loans or risk guarantees; and always requires creation of the right conditions of regulation, competition, and start-up costs.

It is not enough for governments and aid donors simply to say "Leave it to the private sector". Areas in which government action is still needed, often with donor support, include: creating an enabling legal and regulatory environment to attract investors; ensuring that the communication needs of the poorest and most marginalised people are met, often through innovative public-private partnerships; and introducing ICT into government functions and services. Donors also play a role in encouraging private operators to enter risky or less profitable areas, by supplying financial assistance and risk mitigation; and in international collaborations, for instance to build 'backbone' infrastructure linking countries and regions across Africa.

Preface

On 24 May 2005, the Council of the European Union took an ambitious decision on more development aid and better and faster delivery of assistance. With this decision, the European Union is once more in the political lead for development policy. The EU is today the largest provider of Official Development Aid (ODA) with over half of aid worldwide.

But we will do even more: we will unlock additional funds, we will deliver aid more efficiently, we will address policy contradictions and exploit synergies, and we will deliver in time. Our aim is to honour the Millennium Declaration adopted by all Members of the United Nations in 2000 and strive towards the achievement by 2015 of the Millennium Development Goals. This is why the EU will make an additional 20 billion Euro annually available for development from 2010.

The EU suggests making Africa a special focus of our policy: Sub-Saharan Africa is lagging behind in such a way that without decisive policy action, locally and internationally, the MDGs cannot be reached anytime near 2015. The EU clearly recognises the role that transport, water and sanitation, energy and ICT can play in helping Africa fulfil its impressive NEPAD Infrastructure Plan. The EU is responding to these challenges by moving ahead with an ambitious Europe-Africa Partnership on Infrastructure that will cater among others for Trans-African Networks for Telecommunications.

Louis Michel

Commissioner for Development and Humanitarian Aid
European Commission

Botswana schoolgirls
being interviewed
GIACOMO PIROZZI | PANOS PICTURES



How ICT contributes to development

European development assistance is increasing...

2005 has been a year of development. The Commission for Africa report, the G8 Summit, the Millennium Development Goals Summit and the World Summit on the Information Society all highlight the important role that ICT plays in development.

The EU is the world's largest donor of overseas development aid,¹ and its spending on aid is increasing. On 24 May 2005, EU ministers committed their countries to doubling the annual total of overseas aid to reach \$80 billion by 2010 (0.56% ODA/GNI²), and to achieve the UN target of 0.7% aid/GNI by 2015.

The May 2005 pledge is a step in implementing the 'Monterrey Consensus'. In this agreement, adopted at the UN Conference on Financing for Development in March 2002, developing countries acknowledged that they had primary responsibility for their own development, while developed countries reaffirmed the importance of increasing their support. OECD member countries committed themselves to contributing 0.29% of their GNI annually as development aid by 2006. Most are making good progress towards this goal, reversing a decade of decline in aid through the 1990s.

...with more power to developing country governments

The aim of the EU's development assistance is to reduce poverty. Achieving this is not simple. However, governments of developing and developed countries, civil society and development experts nearly all agree that aid is most likely to be effective when developing country governments have a greater role in deciding how to spend the assistance they receive. An increasing proportion of aid is given as direct support to developing country governments' own budgets.

Such support is prioritised through mechanisms such as Poverty Reduction Strategies, in which developing country governments, in consultation with their people and the World Bank and IMF, decide on their own plans for spending in key areas to reduce poverty.

How ICT contributes to development

Both traditional ICT (telephone, radio, TV and print media) and new ICT (mobile phones, internet) are increasingly recognised as a vital part of the economic, social and political fabric of countries and thus crucial in many ways for development and poverty reduction.

ICT is needed to transmit information, to gather data, to facilitate efficient delivery of services such as health and education, and in management of business enterprises. ICT can enable people to discuss issues, to make their concerns known, to hold their governments accountable and to participate more effectively in political processes. Thus ICT is an essential component of the participation, transparency, and good governance that are increasingly seen (for instance by the Africa Commission) as the crucial basis for development and poverty reduction.

Over a third of Tanzania's total ODA, and 70% of the UK's support for Tanzania, is in the form of direct budgetary support.



Fingerprint identification of voters in Venezuela's Presidential referendum
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Definition:

Information and Communication Technologies (ICT) consist of the hardware, software, networks and media for the collection, storage, processing, transmission and presentation of information (voice, data, text, images) as well as related services.³

Both traditional technologies (telephones, radio and TV) and newer technologies (computers and the internet) are usually included in the concept of ICT.

Stand-alone, or an enabler for development?

Some developing country governments choose to prioritise spending on ICT specifically – for instance, investing in modernisation of their national telecommunications systems. Ninety developing countries are developing national ‘e-strategies’ – overall plans for introducing a range of new and traditional ICT to support national development goals and serve the needs of their people. Some countries identify ICT as a specific element in their Poverty Reduction Strategies.

Rwanda’s Poverty Reduction Strategy: “The Government has ... established the Rwanda Information Technology Agency (RITA) and developed a twenty year strategy for ICT-led socio-economic development.”

Mozambique’s Poverty Reduction Strategy: “Information Technology, main objectives: to expand access to computers and the internet for rural populations; expand knowledge of computers through educational systems.”

The European Development Fund is a € 13.5 billion fund for the Africa, Caribbean and Pacific (ACP) group of countries. Around € 110 million of the 9th EDF supports ICT-related areas. For example, St Kitts and Nevis has identified ICT as a national development priority to be supported by the 9th EDF.

However, the majority of countries do not request aid support for ICT as a sector in its own right. More often, they see ICT not as an end in itself but as a means to an end. So they include ICT as an increasingly important and integral part of development activities in areas such as governance and public administration, health, economic growth, education, natural resource management and disaster prevention.

Most EU donors share this approach, and ICT form part of many EU-funded programmes.

There are many different channels through which developing countries can request and receive aid support for ICT if they choose to do so. They could seek more support than they currently do. This at least was one of the main findings of the Task Force on Financial Mechanisms for ICT for Development, an international expert group set up by the UN Secretary General at the request of the World Summit on the Information Society in Geneva in 2003 to investigate the adequacy of development support for ICT.⁴

It is not possible to give an exact figure for how much is spent on ICT, since the ICT element is not often identified as a separate item in budgets or reports.⁵

The Basic Education Programme in the 9th EDF regional allocation for the Pacific includes a large e-learning component.

The EDF supports an e-commerce project in the Eastern and Southern Africa (COMESA) region for € 21 million.

Denmark’s support to Uganda’s legal system, to the tune of \$19 million, includes a strong ICT element.

Germany supports a programme to increase contraceptive use in Vietnam and Cambodia, which includes establishment of nation-wide computer-based management systems to improve stock-keeping, order-processing and monitoring of drug flows.

Germany’s federal enterprise for technical cooperation, GTZ, has mainstreamed ICT in all sectors since 2000, with spending on ICT components totalling € 40 million.

Ireland and Sweden are founding supporters of the Global e-schools and communities initiative (www.gesci.org). An outcome of the UN ICT Task Force, Gesci brings together bilateral and multilateral donors, academic institutions, the private sector and non-profit organisations to support developing countries in strengthening formal and informal education through the deployment of ICT. An early Gesci project has been support for the development and implementation of Namibia’s ICT in Education strategic policy.

The Netherlands supports an NGO, the International Institute for Communication and Development (IICD), in its work with local partners in developing countries to incorporate ICT into existing sustainable development activities. For example, NGOs in Ghana have produced a comic CD-Rom on HIV/AIDS, designed to catch young people’s attention and support the anti-AIDS campaign of Ghana’s AIDS Commission.



Traditional and modern:
fixing wiring in Rajasthan, India.
QILAI SHEN | PANOS PICTURES

More than just hardware

Until recently, development support for ICT consisted largely of supplying ICT hardware: telephone exchanges and lines, broadcasting equipment, satellites and computers. Improved communications infrastructure is still badly needed in many developing and emerging countries, and EU members continue to support it.

But it is increasingly clear that hardware on its own is not enough. Hardware does not achieve its purpose unless people find it useful and can easily use it. Development planners and aid donors recognise that worthwhile ICT projects are those that address the needs and add value for the people and organisations who will use the technology, from directors of major institutions or government departments to village health workers or small-scale farmers. What information do they want to exchange? What is the easiest way for them to do it? How much are they able to pay?

Organisations introducing ICT need to develop new work practices, culture and knowledge management systems. They may also need to develop their own software, applications and content. Individuals need new skills and expectations. Even when technology is accessible, there may be little take-up of ICT if the political culture does not respect the rights to information and freedom of expression and diversity; or if the information content available is of no relevance. (For example, the internet is of little value to people who are illiterate or who do not speak an international language. Around 90% of its content is in English).

EU supported projects increasingly include training and skills development, development of specific software and applications, and development of locally-relevant content, as well as basic infrastructure. EU supported projects are designed to improve the flow of information and knowledge, and to enhance the variety and quality of knowledge available.⁶

The World Bank estimated in February 2005 that more than \$100 billion is needed between 2005 and 2010 to upgrade the telecommunications infrastructure in the developing world.

France's promotion of applications and content includes creation of a portal to promote Caribbean culture (€300,000 for 2002–2005), and funding of the Francophone Information Highway Fund (FFI) (€1 million/year)

Italy gives \$16 million per annum to supporting e-government for development.

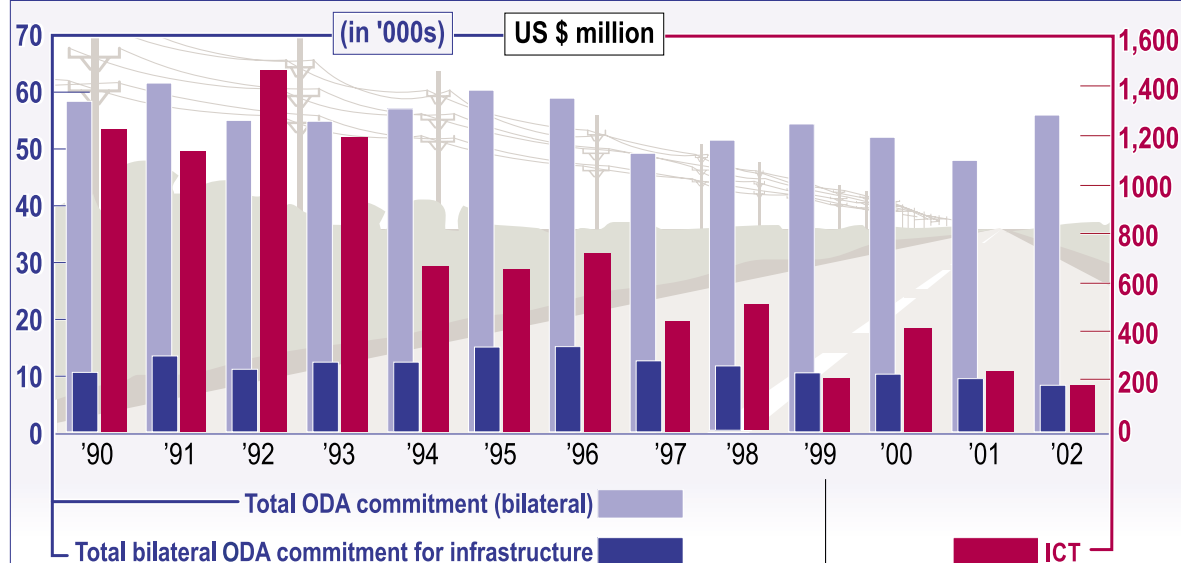
Germany's KfW Entwicklungsbank, a government-owned development bank with a focus on social and economic infrastructure, has previously provided funding for telecommunications (around €2 billion). Now ICT forms an integral part of its support to various sectors: for example, support to Mauritanian fisheries includes a satellite-based fishery monitoring system.

France is supporting a network of community internet access points in Sub-Saharan Africa via the ADEN programme (€6 million, 2004–2006). This project also includes training of network administrators and telecentre managers.

The EU will be supporting the regional ICT infrastructure plans of NEPAD (the New Partnership for African Development).

Financing Infrastructure

Trends in Bilateral ODA Commitments to Economic and ICT Infrastructure



Source: OECD/DAC from "The Report of Task Force on Financial Mechanisms for ICT for Development"

Graphic: october-rooms.com

Official development aid for all infrastructure has shrunk since the 1980s and has largely been replaced by private investment. This is especially true for telecommunications infrastructure. This is because over the past two decades telecommunications have shifted from public ownership to private, in the developed world as well as in developing and transitional countries. Developing country governments and aid donors reduced their investment, not just because it was not needed but also in order to avoid distorting the market where service providers have to operate in competition.

The reduction of aid has not led to shortages of financing for the sector. With the explosion of new technologies, communications projects have been profitable and private capital has generally been available. The World Bank estimates that privatisation of the telecommunications sector has drawn over \$250 billion of private funds into telecommunications infrastructure in developing countries in just over a decade.

Despite this, infrastructure weaknesses often prevent the poorest countries from exploiting their growth and trading opportunities and need to be addressed. The EU is committed to financing priority infrastructure through its support for the new EU partnership with Africa and the African Infrastructure Consortium – within which the African Union, NEPAD and the African Development Bank will play a lead role. This will facilitate more effective and larger-scale infrastructure activity to back Africa's priorities, and identify and overcome project development, financing, and business environment constraints, recognising the comparative advantages of different donors and the private sector.

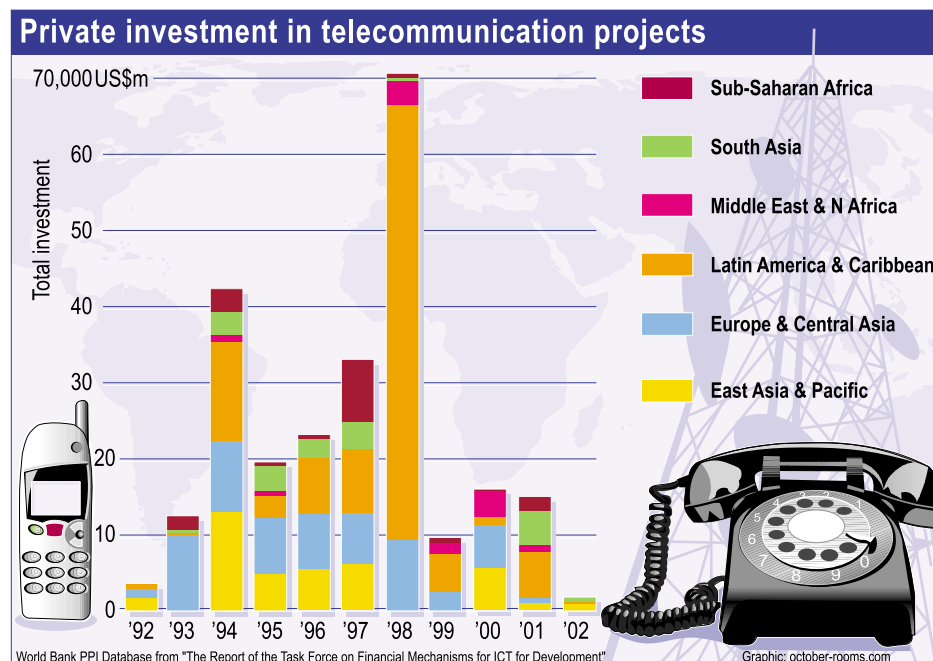
Financing ICT

The private sector is essential...

What is the most effective way of financing ICT, to bring affordable access to the most people?

Recent experience has shown that the private sector often provides services more effectively than governments in many respects, and this is certainly true in the telecommunications sector. Witness the phenomenal spread of mobile phones in the past decade, particularly in Africa. For example, in Uganda mobile phone subscribers multiplied by a factor of 131 between 1996 and 2002 and are now seven times more than the number of fixed-line users. This rapid spread was driven by the private sector's ability to move quickly to satisfy a pent-up need for telephony, as soon as private providers were allowed into the market.

Telecommunications used to be run by state-owned monopoly companies in most countries, but private companies have proved themselves to be more efficient, and more flexible in keeping up with new technological developments. Competition between them also brings lower prices.



...but governments' role is still important

The success of the private sector in meeting many ICT needs does not mean that governments and development aid donors should withdraw from ICT provision altogether. Private sector success often depends on support from governments and donors, and some development needs continue to require public investment.

Creating an enabling environment for investment

Governments are responsible for creating conditions that will attract private sector investors. That is, they must make laws, regulations and start-up processes for private companies as simple, transparent and predictable as possible; ensure fair competition; and ensure that back-up services, skilled personnel and capacity are in place to enable operations to run smoothly. The UN Task Force on Financial Mechanisms for ICT for Development emphasised throughout its report that an enabling environment is key. Without it investment will not be made, or once made it will not be effective in providing services efficiently and at the best price.

Each country needs to develop its own policy and strategies, but global communications also require regional and international governance. The EU provides significant support at all these levels.

For instance, at national level:

Sweden has supported the development of ICT policies or ICT regulatory bodies in Sri Lanka, Rwanda, Mozambique and Tanzania.

The Public Private Infrastructure Advisory Facility (PPIAF) advises developing country governments on improving the enabling environment for private sector participation in infrastructure. Telecommunications infrastructure accounts for about 11% of the PPIAF's budget. The PPIAF is a multi-donor initiative, to which the EU members are major contributors.

Regional initiatives include:

The Commission of the Indian Ocean is supported by the European Development Fund for a € 13.5 million project which includes a substantial ICT component.

The Alliance for the Information Society (@LIS) is a partnership between Europe and Latin America, launched in 2001 with funding of € 63.5 million from the EC (amounting to 75% of the total project budget) to support dialogue on regulatory frameworks, demonstration projects and connections between researchers and communities.

Finland supported a study by the International Telecommunications Union of Asian ICT strategy; and also supports with the EDF the ICT activities of the UN Economic Commission for Africa, and of SADC.

The UK's Catalysing Access to ICTs in Africa (CATIA) project is a £9 million programme of support for new regulatory frameworks and capacity development (2003–2006)

At global level:

To support the development of global policy and governance, the EU and its members support intergovernmental institutions and events such as WSIS and the UN ICT Task Force.

Global exchange of information is supported through the multi-donor InfoDev programme and also the Development Gateway Foundation.

Civil society and NGO alliances are also supported, such as the Association for Progressive Communications (APC), the International Institute for Communication and Development (IICD) and the Global Knowledge Partnership (GKP).



Civil servant in Mozambique using ICT provided by donors
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Courier sorting out deliveries in Kampala, Uganda
TRYGVE BØLSTAD | PANOS PICTURES

Financial support

Sometimes investors may be wary, if a project seems to be very risky, or has high start-up costs or would not generate profit for several years. Donors offer financial assistance such as loans or risk mitigation, especially for the early stages of projects, to enable private companies to operate in areas that might not otherwise be considered commercially attractive or viable.

Denmark supported Danish IT company Metrocomia to start up in Uganda, with a grant of \$467,000 given through its Private Sector Development Programme.

The European Investment Bank (EIB) made over €270 million of loans to the telecommunication sector over the past decade.

The Commonwealth Development Corporation (CDC) provides capital on a commercial basis in countries where firms have difficulty accessing finance. In 2003, its investment in the telecommunications, media and technology sector amounted to about 10% of its portfolio, around £111 million. Investments included CelTel, Africa's second largest mobile operator, and Digicel, an El Salvador operator working throughout Central America.

Public-Private partnerships

The EU recognises that private sector provision may not be able to provide for the needs of the poorest. The private sector is good at supplying wealthier and urban people who can easily pay for services; but poor, marginalised and rural people – the very people who should be the target of development aid – may sometimes be left out.

For instance, private investors are unlikely to move into rural areas of Africa to establish fixed-line telephone systems, because the large distances and thinly spread population make for high infrastructure costs; while widespread poverty means use of phones will probably be low. Even though private sector companies are starting to look seriously at how they can make profit from providing services for 'the bottom of the pyramid' – poor people who have traditionally been regarded as having too little spending power – there are still likely to be market gaps, where government and possibly donor aid may be required.

Donors help governments develop policies and projects for meeting the ICT needs of the poor, through supporting research and consultation. They can encourage and co-finance ICT projects that directly benefit the poor, such as local community information points (without losing sight of the need for ICT projects to be sustainable in the long run). And they can help establish cross-subsidy schemes or innovative public-private partnerships to encourage commercial network operators to channel some of their investments towards less commercially attractive regions.

Partnership for regional projects

Another kind of challenge the market may not solve unaided is the construction of regional infrastructure. For example, the construction of an effective telecommunications backbone to link the different countries and regions of Africa is essential, but it will require such a lot of investment in coordination, building political commitment, policy and regulatory reform, and institution building, besides significant physical infrastructure, that the challenge is too big for any single private investor or development bank. The EU recognises the important role that AU/NEPAD is playing in this area.

Partnership to link Sub-Saharan Africa

Africa's development is hindered by the high cost of communication, which is due partly to a lack of 'backbone' ICT infrastructure between countries in Africa. The cost of providing adequate backbone infrastructure has been estimated at between \$500–1000 million. Initial investment is hard to attract from the private sector or existing soft loan facilities. But if the initial hurdle of the cost of the infrastructure could be overcome, African telecommunications services would probably quickly become profitable for private operators. Voice and data traffic is predicted to grow at 20% a year. (Traffic grew 19% in 2001, 28% in 2002, and 37% in 2003 – compared with an international average growth rate of 10–12% per year).

What needs to be done to put the infrastructure in place? The first requirement is strong coordinated strategic leadership by African governments. If they developed a continent-wide plan and guarantee of enabling conditions, they would be able to mobilise a mixture of private finance, soft loans and some donor support.

A number of EU donors, in partnership with the World Bank, have been actively exploring ways to enable improved African, donor and private sector coordination in this area:

- Under NEPAD's lead, African governments and their telecommunication regulators are agreeing priority routes for fibre cables and could offer these for tender, either bilaterally or in sub-regional groups. Routes that did not 'sell' because of high risk or low profitability could be filled in with soft loan or donor finance. NEPAD and its 'e-Africa Commission' are helping facilitate agreements on the routes, and international experts and donors could help with the processes such as drafting regional licenses.
- In densely-populated urban areas, fibre cables can increase the reliability and lower the cost of bandwidth. African municipal governments could plan urban-level systems and call for bids to build and operate the planned network. Much of the finance would come from the private sector but donors and soft loan facilities could be used to underwrite the costs of rolling out connections to services such as health and education, or to poorer districts.
- For international connections, a model could be borrowed from the oil and gas pipelines industry: a special-purpose non-profit company could be set up. As long as the company guaranteed open access to the structure built and equitable ownership, donors would be willing to contribute to the investment needed.

See Balancing Act: African ICT infrastructure investment options. www.afridigital.net/downloads/DFIDinfrastructurerep.pdf

Woman using mobile phone in
Kampala, Uganda
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Satellite dish supporting a washing line in Nanga Bunyan, Indonesia
CHRIS STOWERS | PANOS PICTURES

Government services as ICT leaders

Another important area of donor support is the integration of ICT into government functions and services. ICT can – if well designed and well used – facilitate the functions of government and public service provision. In the field of health, to take one example, ICT at different levels of sophistication can be used to manage drug distribution, salaries and health records; to support training, diagnosis and treatment; to gather and collate statistics and epidemiological data; and to enable patients to monitor, feed back and hold service providers accountable.

Spain's Ministry of Economy, as a member of the World Bank-initiated Global Development Learning Network (GDLN), created the CEDDET Foundation, which provides online management training courses to high-level civil servants in Latin America. Spain's Agency for International Cooperation also supports distance learning for public and private sector personnel in agriculture and rural development.

As well as the benefit in terms of efficiency, there is a secondary benefit that is increasingly recognised (for instance, by the Task Force on Financing ICT, and also by the Task Forces set up by the UN Secretary General to report on progress towards achieving the Millennium Development Goals). By introducing ICT on a significant scale into their own work, governments can act as leaders in the introduction of ICT into their societies. Building ICT into a major country-wide service such as education involves a great deal of training, introduction of new processes and systems, and establishment of new targets and expectations. It familiarises people with the use of ICT. It triggers the development of information management systems and habits, and may contribute to the development of locally-relevant applications and information content – for instance, spreading the use of local-language software. All these make it much easier for other smaller organisations, such as small businesses or NGOs, to adopt ICT themselves.

EU donors contribute substantially to ICT applications in the public sector in developing countries.



Computer classes run by an NGO in Bindura, Zimbabwe
CHRIS SATTLBERGER | PANOS PICTURES

Cross-border projects and multi-donor cooperation

Many important aspects of ICT infrastructure, use and governance depend on collaboration among countries – among neighbours, regionally or globally. To support this type of collaboration, donors have also begun to collaborate to set up international development partnerships that mobilise public and private resources in various ways to address large issues that demand coordination or are beyond the capacity of individual donors.

One example is the Public Private Infrastructure Advisory Facility (PPIAF). Another is the Private Infrastructure Development Group (PIDG), formed in 2002 by the UK, Sweden, the Netherlands and Switzerland and later joined by the World Bank, to mobilise private and public investment in infrastructure.

The PIDG Trust's first project was the \$305 million Emerging Africa Infrastructure Fund – which has funded Celtel International, one of Africa's principal regional mobile phone operators (www.emergingafricafund.com/stake.htm)

Meeting the Millennium Development Goals

An estimated \$50 billion is needed to achieve the Millennium Development Goals by 2015, over and above the development funds already promised in the Monterrey consensus. A significant part of this will no doubt be spent on ICT, to improve the efficiency and effectiveness of service provision, support good governance, empower the poor and enable economic development. Many African countries, which are furthest from achieving the MDGs, need ICT to help them stimulate their economies and integrate them into the world economy.

The additional funding needs to be raised and spent quickly. An International Finance Facility has been proposed as one means of mobilising and managing this additional funding. The Facility would not be a new development agency, but a purely financial mechanism to channel extra funds through existing aid fund mechanisms. The idea is to 'front-load' development finance: donors would make long-term commitments for development aid after 2015, and these commitments would be used to raise bonds on the international capital markets immediately. The donors would then repay the bonds after 2015. The proposal has generated a lot of interest among donors and multilateral institutions such as the World Bank. The Africa Commission recommends the Facility should be established.

www.dfid.gov.uk/pubs/files/International-Finance-Facility2003.pdf

For further information:

www.europe-cares.org

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1 Around €6 billion in aid to developing countries is channelled through the EU each year, in addition to around €24 billion directly to developing countries from EU member states. Added together, these form just over half of total worldwide Official Development Assistance (ODA). (figures from Sven Grimm, ODI paper, *Aid disbursement and effectiveness*, July 2004)

2 GNI = Gross National Income.

3 Definition taken from *Financing ICTD: A review of trends and an analysis of gaps and promising practices*, Report of the Task Force on Financial Mechanisms for ICT for Development, UN, December 2004. www.itu.int/wsis/tffm/final-report.doc

4 Report of the Task Force on Financial Mechanisms for ICT for Development, see note 3.

5 More information on EU aid to ICT can be found in the OECD-DAC ICT Donor Strategies Matrix, www1.oecd.org/dac/ictcd/html/home.htm

6 For more information on how ICT can stimulate growth and development, see *Good Practice Paper on ICTs for Economic Growth and Poverty Reduction*, Simon Batchelor and Nigel Scott, OECD DAC Journal, Vol 6, No 3, 2005.