

# Overview

*Jeni Klugman*

## Outline

### 1. Introduction

- 1.1 Dimensions of Poverty
- 1.2 What is a PRSP?
- 1.3 The process of developing a poverty reduction strategy

### 2. From understanding poverty outcomes to public actions

- 2.1 Where are we now?
  - 2.1.1 Economic opportunities
  - 2.1.2 Capabilities
  - 2.1.3 Security
  - 2.1.4 Empowerment
  - 2.1.5 Understanding linkages
- 2.2 Where do we want to go?
- 2.3 How are we going to get there?
  - 2.3.1 Macro and structural policies
  - 2.3.2 Improving governance
  - 2.3.3 Appropriate sectoral policies and programs
  - 2.3.4 Realistic costing and appropriate funding levels
- 2.4 How will we know we are getting there?

### 3. Concluding Note

#### **Boxes:**

- 1. World Bank Approaches to Poverty, 1990 and 2000
- 2. Priority Areas for Public Action in a PRSP
- 3. Participatory Processes

#### **Figures:**

- 1. An illustration of how a PRS can unfold at the country level
- 2. Steps in identifying poverty data needs and uses

#### **Tables:**

- 1. Main sources of risk
- 2. Examples of poverty reduction indicators and targets
- 3. Possible arrangements to reduce the impact of risk

## 1. Introduction

Despite modest reductions in poverty in recent decades, progress has been less than hoped, especially in low income countries. This disappointment has led to a critical examination of what policies best promote economic growth and reduce poverty in low income countries, and a realization that the delivery of external support should be changed.

In particular, development practitioners have raised concerns about the level of financial resources dedicated to reducing poverty and the ways in which aid, including assistance from the World Bank and IMF, and debt relief have been delivered. The old model of a technocratic government supported by donors is seen as incomplete. Most development practitioners now believe that aid and policy effectiveness depend on the input of a whole range of agents—including the private sector and civil society—as well as on the healthy functioning of societal and institutional structures within which they operate.

While poor performance in reducing poverty has many causes, analysts agree that action is needed on both the domestic policy and external assistance fronts. This raises two sets of issues:

- How to identify effective strategies to reduce poverty; and
- How to modify external partnerships and assistance to reduce poverty more effectively.

National poverty reduction strategies can improve the poverty impact of expenditures financed by external partners and the effectiveness of technical advice by increasing country ownership and shifting policy to a more results-oriented approach. This approach is based on the principles of the Comprehensive Development Framework and has been informed by the Bank's World Development Report 2000/1.

Recent papers<sup>1</sup> presented to the Executive Boards of the World Bank and International Monetary Fund propose an enhanced framework for poverty reduction in low-income countries. The Interim and Development Committees have strongly endorsed this approach. The objective is to encourage low-income countries to reduce poverty by focusing on a renewed growth-oriented strategy. This approach has been formally adopted for World Bank and IMF concessional lending, but it is intended to engage all development partners—indeed its success will depend on that. Enhanced poverty reduction efforts will build upon existing country processes and will be tailored to individual country circumstances.

The process of preparing and implementing PRSs will take time, and will involve learning by doing. The purpose of the Sourcebook is to provide guidance and analytical tools to countries and country teams developing poverty reduction strategies. It is a collection of broad policy guidelines, examples of international best practice, and technical notes for the more technically oriented readers. As elaborated below, it is not intended to be prescriptive, nor does it indeed provide “the answers.”

---

<sup>1</sup> See [www.worldbank.org/poverty/strategies/keydocs.htm](http://www.worldbank.org/poverty/strategies/keydocs.htm) & [www.imf.org/external/np/pdr/prsp/poverty2.htm](http://www.imf.org/external/np/pdr/prsp/poverty2.htm) including: *Strengthening the Link Between Debt Relief and Poverty Reduction* (WB/IMF, Sept. 1999); *Poverty Reduction Strategy Papers: Status and Next Steps* (WB/IMF, Oct. 1999); *Poverty Reduction Strategy Papers: Operational Issues* (WB, Dec. 1999); *Poverty Reduction Strategy Papers: World Bank Internal Guidance Note* (WB, Jan. 2000); *Building Poverty Reduction Strategies in Developing Countries* (WB, Sept. 1999); and *The Poverty Reduction and Growth Facility (PRGF)—Operational issues* (IMF, Dec. 1999).

## 1.1 Dimensions of Poverty

Poverty is multi-dimensional, extending beyond low levels of income, as the World Development Report 2000/1 emphasizes (see Box 1). The Sourcebook considers the following dimensions of poverty:

- *Lack of opportunity*: Low levels of consumption/income, usually relative to a national poverty line. This is generally associated with the level and distribution of human capital, social assets and physical assets, such as land, and market opportunities which determine the returns to these assets. The variance in the returns to different assets is also important.
- *Low capabilities*: Little or no improvements in health and education indicators among a particular socio-economic group;
- *Low level of security*: Exposure to risk and income shocks, which may arise at the national, local, household or individual level.
- *Empowerment*: Empowerment is the capability of poor people and other excluded groups to participate, negotiate, change and hold accountable institutions that affect their well-being.

The empirical correlations between these different dimensions of poverty are overwhelmingly positive. Using multiple dimensions to analyze poverty will not always increase the number of people considered to be poor, but will highlight the fact that the poor suffer from multiple deprivations.

### Box 1: World Bank Approaches to Poverty, 1990 and 2000

The definition of poverty has evolved over the past decade together with international knowledge about the nature of poverty and its determinants. In 1990, the World Development Report expanded the traditional income-based definition of poverty to further include capabilities – such as health, education and nutrition. This framework explicitly recognized the interaction and causal relationship among these dimensions. It recommended a strategy for poverty reduction based on broad-based growth in incomes and on investment in basic education and health care, together with safety nets for those unable to participate in growth.

In light of direct testimonies including the Voices of the Poor study, and the evolution of events and ideas in the 1990s, the World Development Report 2000/1 further extends the concept of poverty to include the dimensions of vulnerability, voicelessness, and powerlessness. These broaden the causal framework for analysis and expand the range of policies and actions that can be considered.

Overall feedback from developing countries suggests strong support for this expansion of the concept of poverty. While there is wide support for multi-dimensional perspective on poverty, many countries also recognize the practical and operational difficulties associated with that expansion. These difficulties manifest themselves in various ways, for example, while the inclusion of the vulnerability/security and powerless/empowerment dimensions is generally welcomed, there is recognition that our understanding on those dimensions is much more limited than the on the more conventional/standard dimensions. Second, the WDR framework does not offer guidance on how to weigh the relative importance for policy action of the different dimensions, which is a question for national debate. Third, while there are important synergies between opportunities, security and empowerment, in some cases there may be policy tradeoffs, at least in the short term.

(see <http://www.worldbank.org/poverty/wdrpoverty>).

In practice, poverty-reducing interventions will focus on improving the income security, education and health capabilities, and empowerment, of those population groups living in poverty or near the poverty line, and those at relatively high risk of falling into income poverty.

## 1.2 What is a PRSP ?

The principles underpinning the PRSP program suggest that PRSPs should be:

- country-driven and owned, based on broad based participatory processes for formulation, implementation and outcome-based progress monitoring;
- results-oriented, focusing on outcomes that would benefit the poor;
- comprehensive in scope, recognizing the multidimensional nature of the causes of poverty and measures to attack it;
- partnership-oriented, providing a basis for the active, coordinated participation of development partners (bilateral, multilateral, non-governmental) in supporting country strategies;
- based on a medium and long term perspective for poverty reduction, recognizing that sustained poverty reduction cannot be achieved overnight.

All countries receiving HIPC debt relief, and all countries in which an IMF Poverty Reduction and Growth Facility (PRGF) is in place or programmed, will need to have Poverty Reduction Strategy Papers endorsed by the Boards of the Bank and Fund. The same expectation applies to IDA countries. This means that the poverty reduction strategies are on the agenda of about 70 low-income countries.

It has been recognized that preparation of country-owned, participatory PRSPs could take up to two years. In order not to delay progress in providing concessional assistance or debt relief, countries can prepare *Interim PRSPs* (I-PRSPs). I-PRSPs would, at a minimum, include a statement of commitment to poverty reduction, an outline of the nature of the poverty problem and of existing government strategies to tackle it, and a timeline and process for preparing a PRSP, together with a three year policy matrix and macroeconomic framework (of which the outer years would be tentative).

While the majority of I-PRSPs and full PRSPs to date have been prepared by African countries, the geographical spread has expanded over the past six months to include five countries in Europe and Central Asia, two countries in Latin America and the Caribbean, and one each in East Asia and the Middle East. The total number of papers brought to the Boards as of mid-March 2001 was 32 I-PRSPs and four full PRSPs.

When a PRSP is presented by a government to the Executive Boards of the World Bank and the International Monetary Fund, it is accompanied by an assessment of that strategy by Bank and Fund staff. The Joint Staff Assessment (JSA) makes an overall assessment for the Executive Boards as to whether or not the strategy presented in the PRSP constitutes a sound basis for concessional assistance from the Fund and the Bank. A positive assessment does not necessarily indicate that the staff agree with all of the analysis, targets, or public actions set forth in the PRSP, or consider that the PRSP represents the best possible strategy for the country. Rather it indicates that the staff considers that the strategy provides a credible framework within which the Bank and the Fund can design their programs of concessional assistance.

While the shift to country-ownership will allow substantially more leeway in terms of policy design and choices, what is acceptable to the Bank and Fund boards will be based on what the current understanding of international experience suggests is effective in lowering poverty. Five basic elements of a full PRSP were set out, at least in broad terms, in the earlier board papers (see footnote 1), and are reflected in the Guidelines for staff in preparing JSAs. These are:

- (i) an assessment of poverty and its key determinants;
- (ii) setting targets for poverty reduction;

- (iii) prioritizing public actions for poverty reduction;
- (iv) establishing systematic monitoring of poverty trends, and evaluating the impact of government programs and policies; and
- (v) a description of the main aspects of the participatory process.<sup>2</sup>

There has been demand from low income countries, as well as from donors, for further elaboration of the aspects of content and process that are likely to raise concerns at the joint Boards. Hence this Overview provides more specific guidance as to what is expected to constitute good practice. Box 2 lists the priority content areas for public action in a PRSP.

**Box 2: Priority Areas for Public Action in a PRSP**

The priority public actions designed to raise sustainable growth and reduce poverty constitute the heart of a PRSP. It is worth distinguishing four key areas of content, namely:

1. Macro and structural policies to support sustainable growth in which the poor participate;
2. How to improve governance – including public sector financial management;
3. Appropriate sectoral policies and programs; and
4. Realistic costing and appropriate levels of funding for the major programs.

Every PRSP would be expected to provide an adequate overall treatment of each of these four areas. What is covered within each area will of course differ across countries. It is staff Judgments in the JSAs are grounded in country conditions, and have to be made as to the extent of progress the country has made in addressing these issues, relative to its starting point.

Full PRSPs are expected to summarize the priority public actions over a three year horizon by inclusion of: (a) a table(s) presenting the country's macroeconomic framework; (b) a table(s) summarizing the overall public expenditure program and its allocation among key areas; and (c) a matrix of key policy actions and institutional reforms and target dates for their implementation.

Many countries are not in a position to fully address the various dimensions of poverty. In any case, country ownership will mean significant differences in national poverty reduction strategies. The World Bank and IMF will consider that progress should be considered relative to each country's starting point, and recognize that PRSPs should vary across countries, and may well be limited in scope and quality in many countries for the next two years or so.

Initial conditions differ widely, as do other factors that will shape poverty reduction strategies. These include country variations in:

- the type of governments and how representative they are;
- the capacity of national authorities to engage in participatory processes with civil society, the public and private sector groups;
- the extent to which civil society groups exist, are representative and are active among poor groups;
- the relationships with external partners, such as the UNDP, UNICEF and other UN and multilateral agencies, bilateral partners, and the World Bank and IMF;
- the availability of data needed to measure poverty outcomes and analyze the nature of poverty and its determinants; and
- the capacity to design and implement sectoral programs and policies to tackle poverty.

<sup>2</sup> The Executive Boards have instructed the staffs to describe, but not to evaluate, the participatory process.

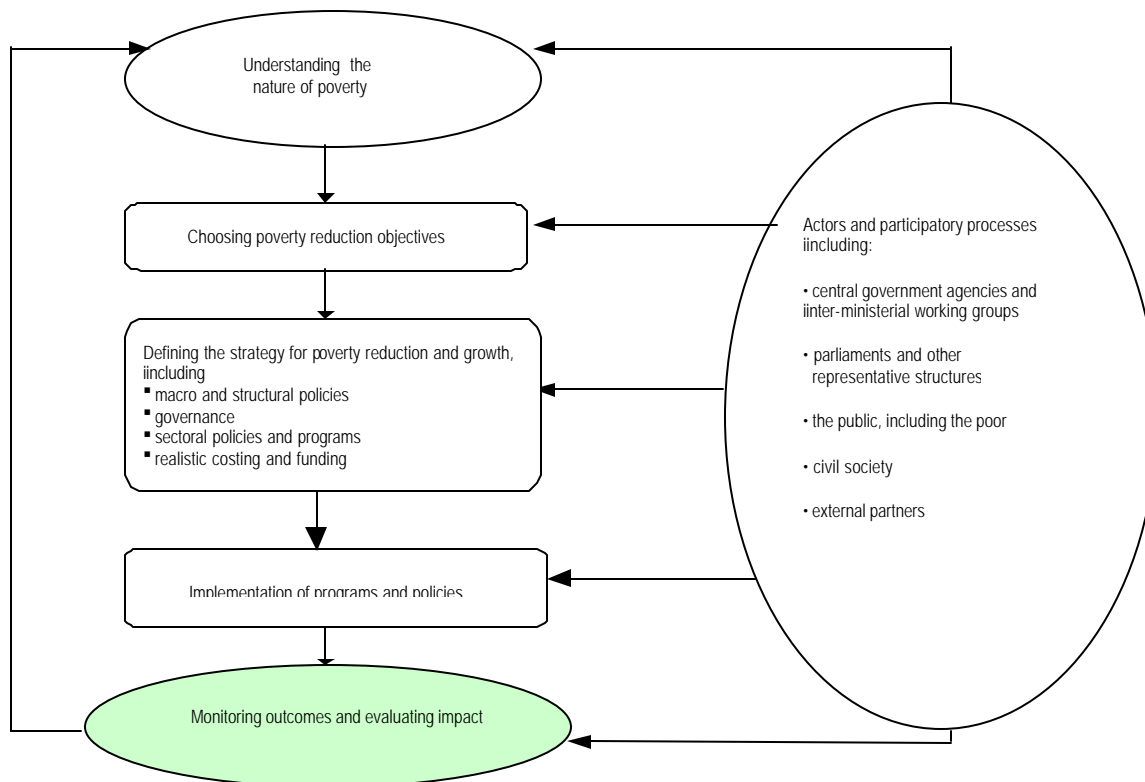
Over the next few years, each country will be learning by doing. The World Bank and IMF welcome experimentation by country authorities; the information provided in this Sourcebook should be read in that light.

### 1.3 The Process of Developing a Poverty Reduction Strategy

This section does not prescribe exactly how the process of developing a poverty reduction strategy should unfold. The process will vary greatly because it takes place in different countries, under different kinds of governments. The objective here is to suggest a possible sequence of steps in design and implementation, and to flag the general tasks that likely need be addressed.

The process can be thought of in terms of several phases, although certain elements—in particular, participatory processes—may run throughout. At the risk of over-simplification, these phases are illustrated in Figure 1.

**Figure 1. An illustration of how a PRS can unfold at the country level**



Broad-based consultations on priorities and problems with civil society, citizen groups, and external partners should influence the strategy. The design and execution of the participatory process, however, is a matter for the national authorities. The participation chapter provides guidance on this process.

To provide clarity and to help structure its description of the participatory process, the JSA will focus on the following points in describing whether the PRSP has built country ownership through participation:

- Participatory processes within government (among central ministries, parliament, and sub-national governments).
- Other stakeholder involvement (for example, civil society groups, women's groups, ethnic minorities, policy research institutes and academics, private sector, trade unions, representatives from different regions of the country).
- Bilateral and multilateral external development partners' involvement, including collaborative analytical work to support PRSP development.
- Mechanisms used to consult the poor and their representatives.
- Plans for dissemination of the PRSP.

The PRSP is expected to summarize major issues raised during the participatory process, and its impact on the content of the strategy. It could also indicate how the participatory process evolved over time, including the extent to which the participatory process has been well integrated with existing processes of the government for policy and decision making.

It is important that the PRSP build on and provide consistency with other current government documents that set forth national or sectoral development plans and/or budgets. There are important linkages between implementation of the strategy and the annual budget cycle, medium term expenditure frameworks (MTEF) where there exist, and the iterative process by which results from the preceding year and ongoing dialogue are fed into policy and program redesign and annual progress reports. It is important that the PRSP become institutionalized in domestic budget preparation and policy and program formulation practices.

To learn from country experiences, the World Bank has prepared a retrospective study on the participatory processes in the I-PRSP and full PRSP countries up through the end of 2000. Box 3 provides some tips drawn from available experience, which are elaborated in the next chapter.

### **Box 3: Participatory Processes**

In establishing participatory processes, the following might be helpful:

- Asking a steering committee with wide representation to manage the process to encourage broader participation.
- A careful analysis of the perceived interests of as wide a cross-section of stakeholders as is feasible.
- Structuring the process to generate clear outcomes, which then influence the development of the PRS through a pre-determined mechanism —such as a checklist of ideas.

Improving coordination of donor support and minimizing overlaps will also be important. Development partners should also be involved to ensure that the poverty strategy has a realistic chance of being funded. As noted already, the PRSP would form the basis for support from the IMF under the PRGF, and from the World Bank as spelled out in its Country Assistance Strategy.

## 2. From Understanding Poverty Outcomes to Public Actions

In general, a fully developed poverty strategy would be expected to have covered four broad questions:

1. "Where are we now?" The PRSP is expected to be grounded in an understanding of the extent, nature, and various dimensions of poverty, and its determinants;
2. "Where do we want to go?" National authorities should reach some consensus through broad based consultations on the goals and targets for poverty reduction;
3. "How are we going to get there?" This constitutes the heart of the strategy, and involves the selection and prioritization of public actions; and
4. "How do we know we are getting there?" A systematic approach to monitoring of poverty outcomes and intermediate indicators is key to the integrity of the overall approach.

These questions, together with a description of the participatory process, correspond to the basic elements of a PRSP set out on page 3. The next few pages highlight what is envisaged under each of these headings though, as already stressed, the depth and nature of treatment will vary considerably across countries.

### 2.1 Where are we now?

The assessment of poverty would be expected to begin by examining the nature of poverty based on available quantitative and qualitative data sources. To the extent possible, the description should take into account its multi-dimensional nature by going beyond consideration of income, and asset holdings of the poor to look at the non-monetary dimensions of poverty, in particular education and health status, vulnerability to shocks, and disempowerment. It is important to disaggregate the analysis to examine, for example, differences in various aspects of individual well-being by gender, region and ethnic group.

Ideally, national authorities would complement a static profile of the poor with an analysis of the factors that prevent movements out of poverty. This could include interactions among the different dimensions of poverty. The techniques needed to investigate these dimensions are presented in the Poverty Data and Measurement chapter of the Sourcebook.

At the micro-level, national authorities should understand where the poor live; how they earn their living; and the types of physical assets have (land or other inputs). Labor market diagnostics can be used to assist in identifying the trouble spots where policy-makers might choose to intervene. Labor market problems can take many forms: for example, high open unemployment, or low earnings prospects for particular groups. Some indicators that could be monitored include the labor force participation and unemployment rates, the level and distribution of earnings and productivity, and formal versus informal shares in employment. At the macro-level, an assessment of the impacts of economic adjustment and structural policies on growth and poverty reduction would be valuable.

More specifically, the key challenges in poverty diagnostics include the following:

1. Availability of adequate poverty data
  - Disaggregated by regions and by demographic group, including by gender.
  - Quantitative data that is complemented by qualitative information.



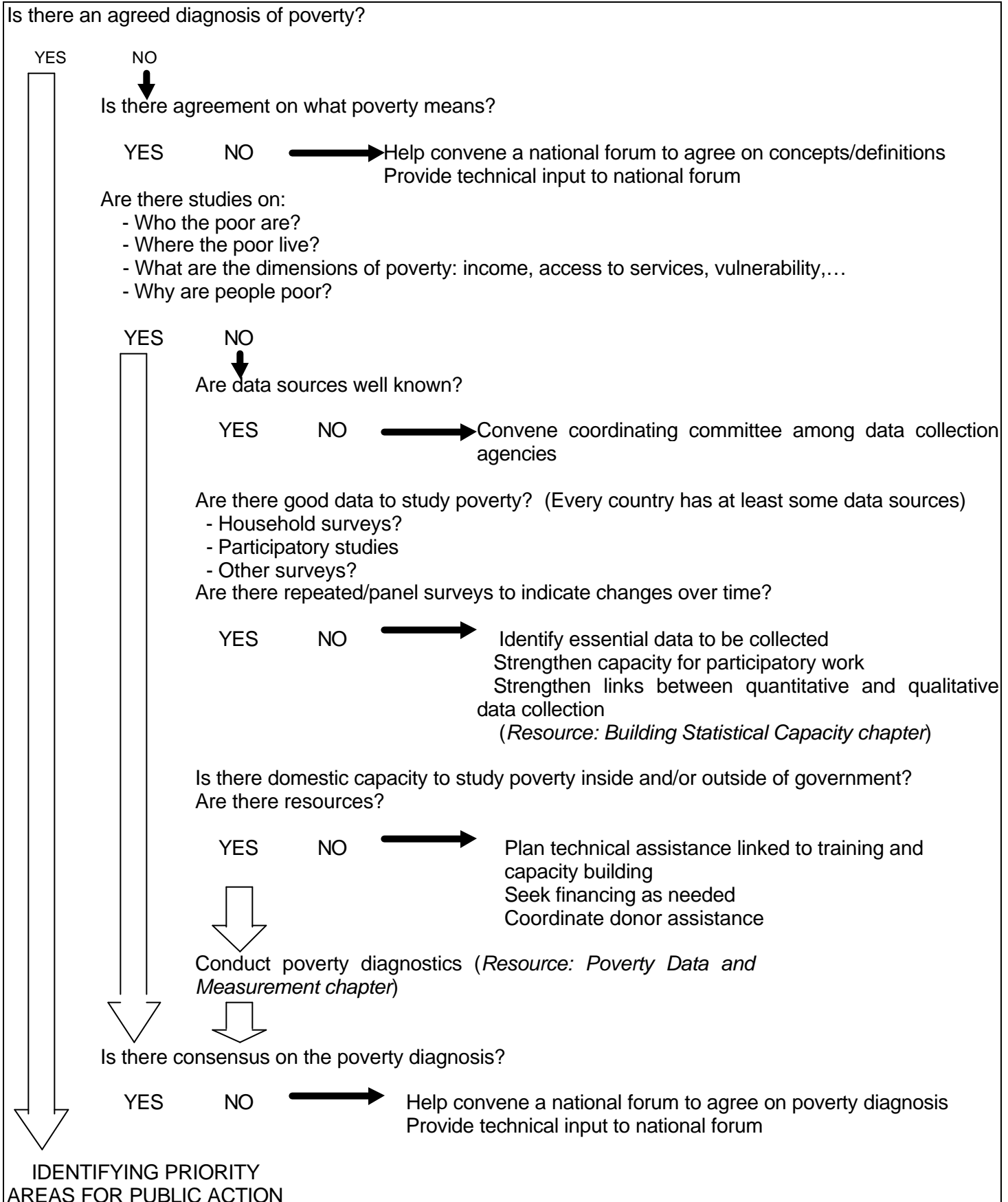
- Accessibility of data for policy analysis, especially outside government.
2. Analysis to identify the nature and determinants of poverty outcomes (broadly defined), and of trends over time
- Extent of income/consumption and other dimensions of poverty (health, including environmental diseases, education, natural resource degradation, vulnerability, disempowerment) and their evolution over time.
  - Analysis of gender dimensions of poverty.
  - Distribution of assets of various types—natural, physical, financial, and human.
  - Identification of economic, social and institutional (including corruption and poor governance) constraints to poverty reduction.

Relevant information includes micro data from household or firm level surveys and qualitative assessments, as well as administrative data on service provision and usage, and revenues and actual fiscal expenditures at various levels of government and within sectors. Data deficiencies can obviously constrain the analysis. Figure 2 sets out a decision tree type process for working through data availability and needs for poverty diagnostics and monitoring of progress.

Assessing the growth and distributional impacts of past policies and programs is difficult, not least because data and monitoring and evaluation systems are usually weak, and rigorous quantitative assessments are seldom available. Nevertheless, judgments about the efficacy and impacts of past policies, even if qualitative, are crucially important for improving strategies over time. Areas that should be open to scrutiny include the impact of macroeconomic policies, including the ability to respond to exogenous shocks, and of structural and sectoral policies, including the distributional impacts of past reforms and policies affecting private sector development, the operation of product and factor markets, and environmental management. The equity, effectiveness and efficiency of existing pattern of public expenditures, service delivery, and systems for budget management are important (see the chapter on Public Spending).

An effective outcome-driven poverty reduction strategy will generally require national authorities to strengthen existing statistical systems to ensure that key survey, administrative and budget data are reliable and available in a timely manner. In many countries, improvements in the statistical system could be an important part of the poverty reduction strategy itself. Further guidance on how to build or strengthen statistical capacity, and rally donor support for these efforts, can be found in the chapter on **building statistical capacity**. External partners could provide funding and resources in many of these areas.

**Figure 2: Steps in Identifying Poverty Data Needs and Uses**



The next few pages suggest a framework for understanding poverty and its determinants, along the dimensions of opportunities, capabilities, security and empowerment. The intention here is to illustrate some key causal relationships and inter-relationships, rather than to provide exhaustive detail. Many of the themes are picked up in other chapters of this Sourcebook.

### 2.1.1 Economic Opportunities: Growth and Rising Incomes of the Poor

Numerous statistical studies confirm that rapid economic growth is the engine of poverty reduction, using both income and non-income measures of poverty. Domestic policies have an important impact on sustained growth, among them prudent macroeconomic management, more open markets, and a stable and predictable environment for private sector activity. Macroeconomic stability provides an important precondition for higher growth rates, and also helps prevent balance of payment crises and the resurgence of inflation—both of which have negative consequences for poverty. (See the chapter on **macroeconomic issues**.) High inflation can also stifle economic expansion and limit poor people's opportunities to acquire assets necessary to hedge against income shocks. The process of acquiring assets is not determined by market forces alone, however. Regulatory and judicial structures, as well as political, social and demographic forces, will also affect the ability of poor people to acquire a range of financial and human capital assets with high and stable rates of return. Growth also depends on a number of factors outside the control of developing country governments, including weather, and trade and foreign assistance policies in industrial countries.

Removing barriers to access to new goods, technology, and investment opportunities (through trade, investment, and financial liberalization), have generally been associated with economic growth. Structural policies to improve the functioning of markets are thus critical (see the chapter on **pro-poor growth**). Similarly, good governance is crucial to accelerating private investment and thus economic growth.

Well-functioning labor markets play a central role in reducing poverty (see, for example, the **rural poverty** chapter). Therefore, removing obstacles to job creation, especially among small and medium-sized enterprises, and creating an environment conducive to private sector development, will be an important element of the overall poverty reduction strategy.

Various types of asset endowments directly influence the wellbeing of the poor, including:

- **Human capital.** Investment in human capital is the most widely accepted way of improving the asset base of the poor. There is a close association between health and agricultural labor earnings, and education and higher earnings from non-agricultural activities, for example. Improving governance to reduce the diversion of public resources from the poor, and shifting budget allocations in favor of the poor, will also encourage human capital accumulation among the poor. Expanding employment opportunities for the poor may also lead to skill acquisition among low income groups. See the chapters on **education, health, governance and public spending**.
- **Infrastructure.** The poor's lack of access to a minimum quantity and quality of infrastructure services—especially safe water, sanitation, transport, electricity, and information and communication technology—can result in unhealthy living conditions, and can reduce their ability to use social services, engage in productive activities, and access employment opportunities. Non-agricultural activity tends to be greater in those areas that are better served by rural infrastructure. (See the chapters on **rural poverty** and on **private sector and infrastructure**.)

- **Land.** Access to land can be increased through land reform, land market liberalization and improvements in the functioning of land markets. Security of tenure can stimulate investment to improve agricultural productivity and promote development of an effective land market. (See the **rural poverty**, **governance** and **urban poverty** chapters.)
- **Credit.** Access to financial services is often problematic for the poor, in part because the poor lack physical collateral necessary to obtain loans. However, it is often difficult to extend credit access to the poor because they lack access to formal and informal institutions through which credit is available, and to information about credit schemes. (See the chapter on **rural poverty** and **private sector development**.)

In order to break a vicious circle of poverty, it is important to understand the extent to which those who escape from poverty tend to possess a particular combination of assets or have gained access to a catalytic asset in each local context. For example, security of land tenure can facilitate access to credit. Simultaneous improvements in access to financial services and provision of training on small business management skills or novel farming techniques can enhance the impact of increasing land tenure security among smallholder farmers.

### 2.1.2. Capabilities: Education and Health

Low educational attainment, illness, malnutrition and high fertility are major contributors to income poverty. And education and health capabilities are among the primary dimensions of individual well being.

Different sets of factors and actors affect whether poor people achieve literacy and good health. Government policies and actions are important, but private providers of education and health services, the interactions between the public sector and the market, social norms and practices, and individual and household behavior also play important roles. For example, child health outcomes depend on dietary choices at the household level, and access to—and the quality of—health services.

Government policies and actions can be designed to improve literacy and health among those who need it most. A profile of education and health outcomes by income group will reveal which groups are worst off, and the main correlates—location, gender and so on—of destitution (see the **poverty data and measurement** chapter).

The underlying causes of low human capabilities should be identified to inform public actions.

- Are capability gaps due to differences in how the poor and the non-poor use relevant services (e.g., in the use of health care facilities), to unequal physical access to services, or to constraints at the household level?
- Do the poor quality of roads in rural areas and urban outskirts limit access to education and health services, and employment opportunities in urban and rural areas?
- Are there social barriers, including legal discrimination or exclusion of groups from public services, that reduce access and utilization of health and education services among the poor?
- Are the patterns of public spending in the education and health sectors skewed against the poor? (See the **public spending** chapter.)
- Does military spending drain fiscal resources away from poverty reduction efforts in the priority social sectors?
- Are social protection measures reaching the poorest in society, or do they benefit politically powerful groups?

The chapters on **transportation**, **education**, **health**, and **social protection** provide guidelines for further analysis at the sector level. There are also important inter-sectoral relationships.

See the **governance** and **public spending** chapters for an in-depth discussion of inter-sectoral synergies.

### 2.1.3. Security

Insecurity can be understood as vulnerability to a decline in well-being. The shock triggering the decline can occur at the micro or household level (e.g. illness, death); at the meso or community level (pollution, riots); and/or at the national or international level (national calamities, macroeconomic shocks). In poor rural areas, the most important risks are those affecting the harvest (see **rural poverty** chapter). Vulnerability need not be unexpected, and could be seasonal. Everywhere, the risk of illness is a prime concern of the poor (see the **health** chapter). The **macroeconomic** and **private sector development** chapters discuss the origins of macroeconomic shocks that lower the living standards of the poor. Structural reforms could be associated with increased short-term vulnerability for certain groups. See the **poverty data and measurement** chapter for details on the measurement of vulnerability.

Declines in income are more devastating for the poor than for the better-off because the poor are less likely to have the assets they need—or have access to insurance or credit—to hedge against income shocks. Risks at the micro level can be offset, to some extent, by actions at the household level; but risks at the meso and macro level will tend to require public actions to reduce the risk of the shock occurring, or to help offset their negative repercussions.

**Table 1: Main sources of risk**

|                      | <b>Micro</b>                             | <b>Meso</b>   | <b>Macro</b>  |
|----------------------|--|---|---|
| <i>Natural</i>       |  | Rainfall<br>Landslides<br>Volcanic eruption<br>Pests              | Earthquakes<br>Floods<br>Drought<br>High winds  |
| <i>Environmental</i> | Indoor air<br>Pollution                  | Pollution<br>Deforestation<br>Soil degradation<br>Desertification |   |
| <i>Health</i>        | Illness<br>Injury<br>Disability<br>Death | Epidemic<br>AIDS  |   |
| <i>Social</i>        | Crime<br>Domestic violence               | Terrorism<br>Gangs  | Civil strife<br>War   |
| <i>Economic</i>      |  | Unemployment<br>Harvest failure                                   | High inflation<br>Balance of payments / financial crisis<br>Terms of trade shock<br>Growth collapse |

Source: Adapted from Holzmann and Jorgensen, 1999, and Sinha and Lipton 1999.

The poor engage in various strategies to minimize and cope with risks, including precautionary savings and informal group-based risk-sharing through family and community networks. Nonetheless, consumption variability tends to be high among the poor, in part because the shared networks may face concurrent shocks (e.g. effect of a bad harvest).

The extent and nature of the country's vulnerability to exogenous shocks, and the impact of such shocks on the poor, could be assessed. These sources of vulnerability can reduce the likelihood of successful pursuit of a poverty reduction strategy. At the same time, a good understanding of sources of vulnerability may lead to policies to reduce risk. For example, poverty analysis could be linked to information on food shortages and relative price changes, to identify specific social protection strategies to reduce the risks faced by vulnerable groups. Public investment on effective safety net programs may be an important element in a long term strategy for growth and poverty reduction.

#### **2.1.4 Empowerment: The Influence of the Poor**

One important dimension of empowerment is access to, and influence over, state institutions and social processes that set public policies. The level of empowerment among the poor increases as they gain access to economic opportunities, develop human capabilities and establish greater income security. As the poor become empowered, they are more likely to influence public policy discussions on how well the policies and programs which comprise poverty reduction strategies meet their needs.

The nature of formal democratic processes will affect this capacity. Equally important are day-to-day experiences—when people seek care at the local clinic, for example—as well as extra-governmental activities—including mobilization by the poor through their own organizations to promote their rights.

Empowerment is an active process which occurs at different levels. These are influenced by different but overlapping sets of factors:

1. *At the household level*, empowerment refers to intra-household inequality, access to and control over resources, and decision making processes (e.g. the desired number of children, or whether to use contraception).
2. *At the community, regional and national levels*, inequality in access to resources and social interactions affects gender inequality, as well as the empowerment outcomes of different income, ethnic, or religious groups. Empowerment also entails representation in decision-making bodies at the local and national levels of government. Greater transparency and accountability increases the ability of the poor to gain access to public resources, and to the institutions that affect their lives. Transparency also increases the probability that the poor will be treated with fairness and respect.

While it is obviously difficult to quantify empowerment outcomes, it is possible to identify intermediate indicators that may reflect the capacity of the poor to access and influence state institutions and social processes (see Table 2). Several chapters—in particular, those on **governance**, **participation** and **gender**—provide a fuller treatment of diagnostic approaches and policy and program options relevant to empowerment.

Obstacles to the poor contributing to, and sharing more fully in, the benefits of economic growth—for example, the slow growth of agriculture and the rural economy in general, limited access to essential services, and institutional obstacles that leave the poor with little voice and control over the kinds of services delivered to them—could be identified. This should include analysis of the extent to which non-observance of core labor standards, like gender discrimination in the labor market, or child labor inconsistent with child development needs, is a problem.

### 2.1.5. Understanding linkages

At the country level, a poverty reduction strategy would be expected to recognize and deal with inter-sectoral links and complementarities, the inter-dependence between sectoral and macro-performance, and overall social and institutional functioning. In many countries, the characteristics of poverty are fairly well understood, but the links between alternative public interventions on the one hand and poverty and inequality on the other are often not clearly articulated. The participatory elements of a poverty reduction strategy could commence with a listening exercise to seek feedback on government services and interventions.

The notion of causation may itself be problematic in identifying the key determinants of poverty (see the **poverty data and measurement** chapter). Several distinctions are especially important:

1. **Chronic and transient poverty:** Not surprisingly, different types of poverty have different determinants. Among the chronic poor, one should distinguish between the economically active (able-bodied) and those who would be economically inactive (children, aged, disabled and mentally ill). Among the transient poor, it is useful to distinguish between poverty that can be (imperfectly) anticipated, such as seasonal poverty for agricultural households, and poverty that cannot be anticipated due to, for example, macro shocks.
2. **Short versus long-run:** Some factors may have an immediate impact, whereas others have longer term effects. For example, low investment in education of children will have long run effects on poverty.
3. **Direct versus indirect:** Much econometric analysis of the determinants of poverty identifies direct causes, without attempting to uncover more fundamental processes of which these 'determinants' are really a symptom. An example of a 'cause' which may be a symptom could be having a large number of children.
4. **Amenable or not amenable to change by public action:** Not all causal factors can be affected by public action, at least in the short term. However, what is 'amenable' to change by public action varies over time, because it partly depends on the political will of governments, the capacity of the civil service and wider social norms.

## 2.2 Where do we want to go?

The poverty diagnostics, drawing on qualitative and quantitative information, should be used to inform medium and long-term outcome-oriented targets for the country. These targets would need to be linked to present and future macroeconomic, structural, and social policies that together comprise a comprehensive strategy for achieving these outcomes. Agreeing on what goals a country wants focuses efforts and resources, and helps to establish priorities. Setting clear targets can add transparency to the process of allocating resources and provides a benchmark against which to monitor progress. Setting clear goals and targets may also help mobilize external resources.

Goals, indicators and targets are covered in greater depth in the chapter on setting target and costing. The following are useful definitions:

- **Goals** – the objectives national authorities want to achieve; they are often expressed in non-technical, qualitative terms – for example: “to reduce inflation,” “to eliminate poverty,” “to foster job growth,” or “to eradicate illiteracy”.

- Indicators – the variables used to measure the goals — for example, “poverty” measured by a level of consumption insufficient to fulfill minimum food and other basic needs (the “poverty line”); data on completion of the final year of basic schooling, etc.
- Targets – the levels of the indicators that a country wants to achieve by a given time—for example: “to reduce inflation to 8 percent and restore positive economic growth by 2001.”

Both macroeconomic and poverty indicators should be used to monitor progress. The indicators should reflect both the macroeconomic determinants of economic growth and micro-level obstacles to poverty reduction. The choice of indicators and targets should be guided by country circumstances.

A PRS can specify sets of indicators and targets for both the longer term, and for monitoring on an annual basis.

First, indicators and long-term targets should be given for key poverty reduction goals, consistent with the country’s longer term vision which emerges from, inter alia, participatory processes. These indicators of long term goals should include measures of economic progress and material deprivation (e.g., per capita income growth, and measures of both the incidence and depth of poverty), and measures of human capabilities (e.g. health and education measures broken-down by gender if possible). The selection of the indicators and targets will obviously depend on the country’s starting position, and what types of data are presently, or will in the future be, available. At the same time, the authorities could draw on international comparisons of key social indicators related to the International Development Goals (IDGs), although the appropriate indicators, as well as specific targets, will vary among countries.

Second, indicators and annual targets should be given for key determinants of poverty reduction goals – these will generally be inputs and outputs (or intermediate indicators of progress). Table 2 presents a menu of possible indicators from which countries might choose (though it is by no means intended to be exhaustive). This is important to track progress given the long lags—both in reporting and in the time typically associated with realization of long term goals. Thus, for example, the long-term goal of improving the literacy rate could be translated into annual (intermediate) targets covering, for example, the primary school enrollment rate. Intermediate indicators should be those that are known to be responsive to changes in economic conditions or improvements in public service delivery.

Regional and gender disaggregation in the chosen indicators is likely to better reflect changes in economic and social conditions among the poor. Many of the indicators listed below are already being tracked on a regular basis by government ministries and donors in low-income countries. The final column, in Table 2, presents the IDG relevant to the different areas of poverty reduction.



**Table 2: Examples of Poverty Reduction Indicators and Targets**

|                         | Intermediate Indicator  | Final Outcome Indicators  | International Development Goals  |
|-------------------------|---|---|--|
| Poverty & Inequality    | <ul style="list-style-type: none"> <li>Productive asset ownership (land, cattle and/or other physical capital)</li> </ul>   | <ul style="list-style-type: none"> <li>Poverty headcount</li> <li>Poverty gap</li> <li>Average income</li> <li>Gini coefficient</li> <li>Quintile ratio</li> </ul>  | <ul style="list-style-type: none"> <li>Reduce extreme poverty by half by 2015</li> <li>Implementation of a national strategy for sustainable development by 2005</li> <li>Reverse trends in the loss of environmental resources by 2015</li> </ul> |
| Macroeconomic Stability | <ul style="list-style-type: none"> <li>Inflation</li> <li>Exchange rate fluctuations</li> <li>Unemployment</li> <li>Fiscal deficit</li> </ul>   | <ul style="list-style-type: none"> <li>Per capita economic growth rate</li> <li>Unemployment</li> </ul>   |  |
| Security                | <ul style="list-style-type: none"> <li>Unemployment rate</li> <li>Variability in production of chief staples</li> </ul>   | <ul style="list-style-type: none"> <li>Food consumption variability</li> <li>Income variability</li> <li>Wasting among children</li> <li>Malnutrition prevalence</li> <li>Death rate due to violence</li> </ul>   |  |
| Health                  | <ul style="list-style-type: none"> <li>Immunization of children (%): (Measles, DPT3, All, None)</li> <li>Treatment of Diarrhea in Children (%): (use ORT or seen medically,)</li> <li>Treatment of Acute Respiratory Infection in Children (%)</li> <li>Delivery Attendance (%): (doctor, nurse or trained midwife; % in a public facility, % at home)</li> <li>Use of Modern Contraception (%):</li> <li>Age at birth of first child</li> <li>Vitamin A supplementation for children</li> <li>Cooking fuel used</li> </ul> | <ul style="list-style-type: none"> <li>Low-birthweight babies (% of births)</li> <li>Infant mortality rate</li> <li>Under 5 child mortality rate</li> <li>Children Stunted (%)</li> <li>Children Underweight (%)</li> <li>Children w/ Respiratory Infection (%)</li> <li>Adolescent Fertility Rate</li> <li>Prevalence of Anemia</li> <li>Total Fertility Rate</li> <li>STD Infection Rates</li> <li>Adult HIV Prevalence</li> <li>TB Prevalence</li> <li>Life Expectancy at Birth</li> </ul> | <ul style="list-style-type: none"> <li>Reduce infant and child mortality by two-thirds by 2015</li> <li>Reduce maternal mortality by three-fourths by 2015</li> <li>Universal access to reproductive health services by 2015</li> </ul>            |
| Education               | <ul style="list-style-type: none"> <li>Net enrolment ratio (primary, secondary and tertiary levels and by gender)</li> <li>Pupils completing grade 4 (%cohort)</li> <li>Girls reaching grade 5 (%cohort)</li> <li>Girls' school life expectancy</li> <li>Repetition rates (by level of schooling and gender)</li> <li>Adult average years of schooling</li> </ul>   | <ul style="list-style-type: none"> <li>Third grade math &amp; science scores</li> <li>Seventh and eighth grade math score</li> <li>Adult illiteracy rate</li> <li>Adult literacy rate</li> <li>Female illiteracy rate</li> </ul>  | <ul style="list-style-type: none"> <li>Universal primary education by 2015</li> <li>Eliminate gender disparity in education by 2005</li> </ul>   |
| Empowerment             | <ul style="list-style-type: none"> <li>Access to media and internet</li> <li>Number of parties participating in last parliamentary elections</li> <li>Number of daily newspapers</li> <li>Female literacy rate</li> <li>Female control over earnings</li> <li>Number of TV and radio stations</li> </ul>  | <ul style="list-style-type: none"> <li>Number of women in parliament/govt.</li> <li>Percentage of population voting in parliamentary elections (by gender)</li> <li>Prevalence of domestic violence</li> <li>Share of incarcerated population being held without charge</li> </ul>  |  |

It is important to keep in mind that marginal improvements in poverty indicators may become more difficult as the level of indicators improve. For example it is more difficult to reduce income poverty from 10 percent to zero than from forty to thirty percent, because the conditions of the most disadvantaged group generally become more difficult to reach.

Goals and targets should be selected based on the country's current situation and on knowledge of what can and cannot be achieved in a given country. In addition to national level targets, specific targets may be set for, say, women or girls in certain groups in society. Direct dialogue with poor and vulnerable groups, as well as consultations with organized civil society at the local and central levels, provides a mechanism for the country to reach a shared understanding of priorities. (See the chapters on **participation**, **setting targets** and **monitoring and evaluation**.)

To summarize, the expectations with respect to targets, indicators and monitoring can be highlighted as follows:

First, the PRSP should define medium- and long-term goals for poverty reduction outcomes (monetary and non-monetary), establish indicators of progress, and set annual and medium-term targets. These indicators and targets should be appropriate relative to the assessment of poverty and the institutional capacity to monitor, as well as consistent with the policy choices in the strategy.

Second, selectivity in the choice of monitorable indicators and targets, in line with priority public actions and capacity, is important. At the same time, the indicators and targets should appropriately capture disparities by social group, gender, and region. In both the long term targets and the shorter term indicators and targets, there is a need for selectivity so that the number and type of indicators chosen are consistent with national capacity to monitor. The targets chosen could be a range of values, rather than a single number. It is important to emphasize that the targets are only indicative, in the sense that the results of monitoring are a point of departure for assessment of country progress, together with a consideration of policies and exogenous factors which have determined outcomes.

Third, the PRSP is expected to address the challenge of developing monitoring and evaluation systems that are adequate and sustainable. This in turn raises various questions which are covered in the chapters on **Strengthening Statistical Capacity** and **Monitoring and Evaluation**, including the transparency of arrangements for, and results of, monitoring the PRSP, including service delivery to the poor, and adequate use of results of monitoring and evaluation in policy formulation.

## 2.3 How are we going to get there?

The priority public actions to raise sustainable growth and reduce poverty constitute the heart of a poverty reduction strategy. These priorities should be clearly stated and incorporated in a way that takes into account what is known of the linkages between different policies, their appropriate sequencing and the expected contribution of policy actions to the attainment of long term goals and intermediate indicators. It is expected that a good PRSP will present clear priorities for public action, which are appropriate and feasible in light of the diagnosis, the targets, their estimated costs, available resources, institutional capacities, and the effectiveness of past policies.

In order to clarify the nature of this task, it is worth distinguishing four key areas of content that could be covered in a PRS, namely:

1. Macro and structural policies to support sustainable growth in which the poor participate;
2. How to improve governance – including public sector financial management;
3. Appropriate sectoral policies and programs; and
4. Realistic costing and appropriate levels of funding for the major programs.

This section elaborates what is involved in each of these areas, highlighting what is expected in a PRSP. What is covered within each area will of course differ across countries. It is important to reiterate that it is unlikely that any single PRSP, especially in the first round, would systematically cover all of the sub-topics listed under these four areas. Joint Staff Assessments will judge whether, overall, and with respect to each of these four areas, the PRSP is satisfactory, relative to country conditions, and the extent of progress the country has made in addressing these issues.

### **2.3.1 Macro & structural policies to support sustainable growth in which the poor participate**

Prudent macroeconomic management is a precondition for growth. Macro stability, and the avoidance or removal of significant distortions in the economy and costs in terms of foregone growth and adverse distribution, are needed to underpin sustained improvements in poverty. Hence the adoption or persistence of policies leading to macro-instability (e.g. high, say above 30 percent, or accelerating inflation) would tend to raise concern in a JSA of a PRSP.

The macroeconomic framework should promote: (i) a level of inflation that does not undermine private sector growth; (ii) an external position that is sustainable in the medium- to long-run; (iii) growth that is consistent with the poverty reduction objectives laid out in the PRSP; and (iv) an overall fiscal stance that is compatible with the PRSP's poverty reduction and growth objectives.

This means that growth projections should be realistic, given past experience and taking into account likely sources of growth. Possible tradeoffs between the pursuit of short-term versus long-term poverty reduction and other macroeconomic goals should, as far as possible, be explicitly addressed. The distributive impact of policy changes need to be considered in the context of short term crisis management and stabilization programs (see the **macroeconomic** chapter).

A PRSP is expected to address policy constraints (e.g. exchange rate controls) which lead to significant distortions in the economy and reduce the rate of growth. What is a relevant constraint will obviously vary by country, and will be informed by the poverty diagnostics. The types of key structural constraints to growth that would need to be addressed include trade barriers; large loss-making state enterprises and inefficient regulatory and marketing controls.

Enhancing economic opportunities for the poor will generally require removing barriers that limit the growth and economic returns of assets. An investigation using poverty data, both quantitative and qualitative, would be expected to reveal information about the most critical barriers facing the poor. (For examples, see the **health** and **education** chapters.)

Proactive measures may be needed to address at least some of the obstacles to the participation of the poor in growth. For example, where there exist large regional disparities in the distribution of basic infrastructure, the PRSP could outline actions to remedy these disparities. Similarly, in countries where gender imbalances are severe, measures would be needed to ensure that women are able to participate as key agents in increased growth and poverty reduction.

It is important to consider the labor market policy framework -- both regulations and programs -- from a poverty perspective. Some of the regulatory areas that policy-makers could examine include minimum wages; payroll taxes; rules governing hiring/firing of workers; labor standards including hours of work, leave, occupational health and safety, etc.; and regulations against gender and minority discrimination. Based on this assessment, the PRSP could identify reforms to ensure that equitable patterns in growth in demand for labor are encouraged. Labor market programs, such as unemployment benefits and training programs, can be evaluated like other publicly funded social protection programs in terms of cost-effectiveness (see below).

Setting priorities and sequencing reforms will also raise issues. For example, before introducing macro and structural reforms, national authorities should assess how the proposed changes in policies and programs are likely to benefit and harm the poor, both in the aggregate and by sub-groups. An assessment of trade offs is needed. This may point to the need to strengthen social safety net programs prior to embarking on the reform program, or modify the sequencing of

reforms to ensure its successful implementation and to maximize the positive impact of poverty reduction.

A corollary of more sustainable economic policies is improved individual and household security, both as an end in itself and a means to better economic opportunities and capability outcomes among the poor. The types of formal and informal arrangements available to reduce the impact of insecurity on poverty and the poor are outlined in Table 3 below.

**Table 3 : Possible arrangements to reduce the impact of risk**

|                           | Individual / Household  | Group-based  | Market-based   | Public Actions   |
|---------------------------|---|--|--|--|
| <b>Risk Reduction</b>     | <ul style="list-style-type: none"> <li>• Preventive health practices</li> <li>• Migration</li> </ul>  | <ul style="list-style-type: none"> <li>• Common property resource management</li> </ul>  | <ul style="list-style-type: none"> <li>• Crop diversification</li> <li>• Pest management</li> <li>• Access to price and other information</li> </ul> | <ul style="list-style-type: none"> <li>• Macroeconomic stability</li> <li>• Environmental policy</li> <li>• Education and public health policy</li> <li>• Infrastructure</li> <li>• Reduction of trade barriers to smooth local price variability</li> </ul> |
| <b>Risk Mitigation</b>    |   |  |  |  |
| Portfolio diversification | <ul style="list-style-type: none"> <li>• Income source diversification</li> <li>• Investment in physical and human capital</li> </ul>               | <ul style="list-style-type: none"> <li>• Rotating savings and credit associations</li> <li>• Investment in social capital</li> </ul> | <ul style="list-style-type: none"> <li>• Bank savings</li> <li>• Micro finance</li> </ul>  | <ul style="list-style-type: none"> <li>• Agricultural extension</li> <li>• Protection of property rights</li> </ul>  |
| Insurance                 | <ul style="list-style-type: none"> <li>• Sharecrop tenancy</li> <li>• Buffer stocks</li> </ul>  |  | <ul style="list-style-type: none"> <li>• Old-age annuities</li> <li>• Accident and disability insurance</li> </ul>                                   | <ul style="list-style-type: none"> <li>• Pension systems</li> <li>• Unemployment Insurance</li> <li>• Health and disability insurance</li> </ul>   |
| <b>Risk Coping</b>        | <ul style="list-style-type: none"> <li>• Selling assets</li> <li>• Reducing food consumption</li> <li>• Withdrawing children from school</li> </ul> | <ul style="list-style-type: none"> <li>• Calling upon networks of mutual support</li> </ul>  | <ul style="list-style-type: none"> <li>• Selling financial assets</li> <li>• Borrowing from financial institutions</li> </ul>                        | <ul style="list-style-type: none"> <li>• Social assistance</li> <li>• Workfare</li> <li>• Subsidies</li> </ul>   |

*Source: Adapted from Holzmann and Jorgensen 1999.*

The macro and sectoral chapters, in particular, those on **macroeconomic issues, private sector development, rural poverty, health, social protection** and the **environment** provide substantial guidance as to appropriate public interventions to reduce and mitigate risk, as well as ways to assist the poor in coping with adverse shocks when these occur. A number of the public actions necessary to reduce risk have fiscal implications, which would need to be included in the overall budget. Robustness of the macroeconomic program in light of the risks of exogenous shocks is also a factor to consider in PRSP design.

## **2. Improved governance – including public sector financial management**

A PRSP would be expected to consider how governance arrangements and budget management could be improved, since in many countries this has been found to be a critical constraint on the effectiveness of public actions in reducing poverty. One general question is whether improvements in laws and in institutions are needed at the central and local levels with regard to ensuring accountability for use of fiscal resources and better service delivery.

The process of putting together a PRSP should include a review of potential issues in governance and public expenditure management – like lack of transparency and accountability, and fragmented budgets – and where these problems are found to exist, appropriate remedial steps should be set out. For example, measures to address critical problems inhibiting civil service performance may be needed (e.g. non-payment of salaries; lack of accountability of

staff; etc). Where corruption has been found to be pervasive, measures would be needed to combat this problem.

With respect to public expenditure management, a PRSP would be expected to address any systemic problems in budget decision-making and processes, like lack of predictability in flow of funds and failure of funds to reach front-line service delivery units, as well as lack of accountability and reporting for use of funds. Severe imbalances in the sectoral composition of the budget, and in the shares of non-salary recurrent, capital and salary spending in the overall budget which inhibit efficiency and equity should also be addressed (see below).

The PRSP would set out the types of steps being taken to improve transparency and ensure accountability of the fiscal authorities, line ministries and, local or district governments. Community-based mechanisms for fostering transparency and including greater community involvement in the management of local spending are likely to play an important role in this regard, especially for decentralized expenditure programs – an area that seems likely to grow in importance. The PRSP could set out an agenda of institutional reforms designed to bring overall budgetary procedures closer in line with best practices, drawing, inter alia, on the Fund's Code of Fiscal Transparency. This could include procedures for auditing of all public expenditures supported by transparent reporting.

Empowerment of the poor will generally be positively associated with poverty reduction. The state can play an important role in removing or weakening the social barriers that prevent poor women and poor men from participating in a community's social or economic life by removing social and institutional barriers to equity, either directly - through regulation and enforcement – or indirectly, by enabling or promoting the creation of social organizations or coalitions which represent the interests of the poor. National authorities can also foster the participation of the poor and their institutions in decision-making processes, resulting in pro-poor policies and reforms (see **participation** and **gender** chapters).

However, some barriers faced by disadvantaged or excluded groups can be traced to the performance and behavior of government agencies (e.g. police, the legal system, social services). Ownership and rights related to land are particularly important on smallholder farms (see **rural poverty** chapter). More generally, corruption and lawlessness are likely to make it harder for the poor to access services and enforce their rights. (See **governance** chapter).

Adopting community driven development approaches to projects may allow local communities to overcome institutional obstacles to empowering the poor (see chapter on **community driven development**). The promotion of community driven development also has direct linkages with the processes of fiscal and administrative decentralization (see the **governance** chapter).

To summarize then, the areas that are important for poverty reduction in which improvements in governance and public sector management are needed could include the following:

- Measures to address systemic problems in budget formulation and execution, financial management and procurement systems, and monitoring of public spending.
- Plans for improvements in governance arrangements and service delivery, including the role of local communities and local government.
- Steps to be taken to improve transparency and ensure accountability of public institutions and services vis-à-vis the needs and priorities of the poor.
- Efforts to address critical problems inhibiting civil service performance and any issues of corruption in the public service.

### **3. Appropriate sectoral policies and programs**

A PRSP is expected to review key sectoral policies and programs – e.g. health, education, social protection, rural development and infrastructure, and environment – and the extent to which these are working to reduce poverty, and to set out needed reforms. A number of chapters in this source book provide direct guidance that could be used in undertaking such a review. In many countries, existing sectoral strategies will be available, and would provide the appropriate starting point.

Where the poverty and sectoral diagnostics have revealed sources of inefficiency and inequity in the delivery of services – e.g. regional imbalances in budget allocations; inequities in the distribution of public spending that is revealed by benefit incidence analysis, or very low shares to primary levels of service; excessively high wage share and/or lack of accountability of service providers to local populations – the PRSP should outline the ways in which these problems are to be addressed over the next several years. This could include consideration of whether the private sector (profit and non-profit) to play a larger potential role in service delivery.

As far as possible, a PRSP should review and address cross sectoral linkages which jointly determine poverty outcomes. This would include, for example, recognition of linkages between the environment and poverty, including health impacts and natural resource degradation; the role of infrastructure (transport, water and energy) in enabling greater access and affordability to poor households; policies and programs for helping the poor manage risk across various domains such as agricultural production and health; as well as linkages between the health and education sectors.

Countries will also need to address key structural obstacles to growth in order to provide an enabling environment for private sector investment. At the same time, specific actions are likely to be needed to enable the poor to share in the benefits from growth, increase their capabilities and well being, and reduce their vulnerability to risks. Box 5 addresses some key issues in setting budget priorities. Policy and program priorities will not be implemented unless countries ensure that they can afford the public expenditures they plan. Public expenditure reviews and medium term expenditure frameworks can provide guidance on how to ensure fiscal sustainability (see the chapter on public spending). The budget plans in the PRSP would outline how poverty reduction programs are to be financed and in this context, and indicate the country's capacity to absorb financial and technical assistance. **Institutional reforms** may well be needed to support improved allocations on a sustained basis. An appropriate starting point is to map a country's budget cycle (annual and triennial), and then consider how the poverty reduction strategy can be phased in.

Structural and sectoral policy reforms can be used to address the key policy, incentive, and institutional constraints to poverty reduction. The reforms which are designed to increase growth should expand opportunities for the poor, so that the benefits of growth and public services are distributed more equally by region, by economic and social groupings, and by gender. In designing these policies, the PRSP should estimate the likely impact of its proposed policy measures on the poor and include measures to mitigate any negative impacts. Obviously the prioritization and sequencing of reforms are key and should be considered in terms of expected impacts on the poor.

#### **4. Realistic costing and appropriate levels of funding for the major programs**

This has two aspects: realistic costing of all government expenditure programs, including new poverty reduction initiatives; and consistency with the macroeconomic framework. Given the large and challenging agendas that face most countries seeking to reduce poverty, prioritization of possible public actions is key to implementation of a PRSP. The selection of priority actions across sectors would be based on the authorities' judgement about those that are likely to have the largest impact on poverty, what are the priorities of the population, and what can be feasibly implemented in the short and longer term.

These priorities would be incorporated in an iterative fashion, into the overall macroeconomic framework and the budget. The macroeconomic framework is important because what is affordable to a country depends on both the available domestic resources (which in turn depend on the rate of growth and revenue collection as a share of GDP), and what is expected to flow from external sources (see below). It is important that the projected rate of growth in the baseline case is realistic. On the expenditure side, the PRSP needs to realistically cost the programs which comprise the strategy. It is important to review budget priorities, so that programs that are known to have a significant impact on poverty are not significantly underfunded. New spending priorities will need to be consistent with implementation capacity and non-inflationary finance.

The baseline case for costing and financing should be based on best judgments about the likely level of resource flows. In addition to this, however, the PRSP could highlight alternative scenarios, where higher (or lower) levels of external assistance are available to attain poverty outcomes and related intermediate targets. Consideration should be given to the absorptive capacity for larger aid flows, and the macroeconomic impacts (e.g., on employment and growth) of higher expenditure on non-tradable goods such as real appreciation of the exchange rate.

The PRSP will need to consider the scope for reallocation of spending, and for increasing the efficiency of spending and raising new revenue in a non-distortionary manner, as well as the scope for more external assistance. The integration of poverty reduction objectives and policies within a consistent macroeconomic framework should be the result of a process of iteration. The PRSP would thus specify key actions and policies consistent with the macroeconomic framework covering a horizon of at least three years. A timetable of key policy actions over a three-year period, including institutional reforms and technical assistance, could be included in a policy matrix. The greater the degree of specification in this matrix, the more external partners (including the Bank and Fund) could key off this matrix and the less the need for lengthy negotiations to separately specify the conditions in bilateral negotiations between different external partners and the government.

To summarize, the PRSP process would be expected to address such key questions as:

Are fiscal choices consistent with the poverty reduction and growth objectives of the PRSP? Is the allocation of expenditures consistent with the strategic priorities, institutional capacities and efficiency, and realistic cost estimates? Have domestic revenue measures been designed in light of likely distributional impacts? Is fiscal management capacity adequate to effectively implement the proposed expenditure program?

This in turn highlights the importance of the following considerations:

- Quality of cost estimates for key programs.
- Comprehensiveness of budget data, i.e. extent to which all programs (including externally financed projects) are included in an integrated budgetary framework.

- Status of a Medium Term Expenditure Framework (MTEF) to improve the capacity to undertake pro-poor budget allocations over time.
- Disaggregation of expenditure programs by sector and key programs for poverty reduction and by recurrent and investment expenditures.

One basic question is whether the strategy has an adequate and credible financing plan – including domestic borrowing and projected aid (and other external) flows. The answer to this question depends on the realism of external financing projections and implications for long-term debt sustainability, the extent to which external development partners have begun - or indicated their intention - to align and coordinate their own strategies with the PRSP, and contingency plans for expenditures in the event of a shortfall in revenues or financing.

## 2.4 How will we know we are getting there?

Effective outcome monitoring will enable the assessment of progress made towards poverty reduction goals. Thus, transparent and systematic monitoring is a critical element of a sound poverty reduction strategy. Many countries already collect poverty outcome data on a regular basis, and the approach adopted with respect to the poverty reduction strategy will very much build on existing systems.

How to strengthen existing monitoring and evaluation practices is addressed in the chapters on **monitoring and evaluation**, and **strengthening statistical capacity**. It also relates to the discussion of indicators in Section 2.2. Some key features include:

- Critical role of participatory approaches. Civil society and the general public, especially the poor, should be involved in different stages of monitoring the implementation of public policies and programs;
- Inclusion of an impact evaluation strategy. Outcome monitoring should be complemented with impact evaluation of selected policies and programs to help determine the extent to which improvements in outcomes are due to specific public actions;
- Improved budgetary management. Monitoring of poverty outcomes should be complemented by a strengthening of the institutions and practices of expenditure management to enhance transparency and accountability in, and efficiency of, public spending; and
- Dissemination of results. Greater transparency and accountability implies that the results from monitoring and evaluation are widely disseminated through mechanisms appropriate to different groups in civil society, as well as policy makers, program managers, program beneficiaries, the general public, the media and academics.

Systematic monitoring of progress, which would allow experience to be gained on the relationship between actions and outcomes, is a crucial element of successful implementation. And, as described above, the PRSP should include monitorable intermediate targets consistent with the strategy's longer-term goals for poverty reduction. Every year, governments are expected to produce a progress report on implementation of the PRSP. This would highlight whether targets were attained and indicate the reasons for any deviations between actual and targeted outcomes. Modifications to strengthen implementation in light of experience or to deal with exogenous shocks could be presented based on the results of monitoring and interpretation. A full update of the PRSP, developed with broad participation, is suggested every three years. This update would also provide an opportunity for all participants to review implementation.

The PRSP itself is expected to describe the framework and mechanisms for monitoring implementation, including the indicators to be monitored and the planned frequency of reporting



and monitoring. It should also describe measures being undertaken to improve monitoring (such as those set out in Section 2.2 above).

For countries receiving assistance under the HIPC Initiative, the monitoring procedures should include a transparent reporting of savings from debt relief, and the additional poverty-reduction expenditures thus enabled. This does not imply earmarking of HIPC Initiative savings for specified uses, but only an indication of the increase in public spending on poverty reduction actions that resulted from the relaxation in the fiscal expenditure envelope permitted by debt relief. To the extent that such expenditures, including those associated with the debt relief under the HIPC Initiative, are channeled through a poverty fund, the PRSP should set out procedures to ensure that these expenditures were fully integrated into the overall budgetary framework.

### 3. Concluding Note

This chapter has stressed that the development of a PRS in a particular country will vary enormously depending on, *inter alia*, initial conditions and the social and political forces that shape the process of building a poverty reduction strategy. Nonetheless, some elements in the process that are likely to be common across countries can be identified. Priority areas for consideration are likely to include:

- An understanding the nature of poverty and its causes;
- Ascertaining obstacles to pro-poor growth and whether key sectoral policies and programs are working to reduce poverty;
- Establishing the effectiveness and inclusiveness of governance arrangements and the processes for participation; and
- Building capacity for monitoring and evaluation.

The Sourcebook is designed to offer some guidance as the process unfolds, on *both* the process aspects of the PRS and on substantive aspects of poverty diagnosis and the formulation of a strategy to address poverty in its various dimensions.

These companion volumes should be considered a work in progress. Feedback on the content and presentation of the Sourcebook itself will be used to guide future revisions.