

Background briefing : Poverty Reduction Strategies

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Poverty

- At Khuliajara in rural Bangladesh, people generally are considered to have a good quality of life if they have employment opportunities for the whole year, a good house, four to five cows and a fishing net, good clothes to put on, ability to protect their houses from flood erosion, and food to eat to their heart's content.
- Women from Mbwadzulu village in Malawi said that they considered it bad when "people sit on the floor...people going to their gardens without taking any food...they cook under the sun, have no pit latrines, and no plate drying rack."
- What is life when there is no friend or food? - Ethiopian respondent

In 1999, 20,000 poor people in 23 countries were asked how they would describe poverty, and what their hopes were. These were some of their answers. But rarely was there passive acceptance: often the investigators report a sense of toughness, and ideas for fighting poverty.

The world's governments are committed to helping a billion people out of poverty by 2015. That is what will be needed to achieve the International Development Target of halving the proportion of the world's people who live in poverty. There has been some success in the past decade, especially in China, India, and (before the 1998 financial crisis) Indonesia. But in much of South Asia, Africa and Latin America, the current strategies are not lifting enough people out of poverty.

We think there are four main reasons:

- We do not pay enough attention to what the poor themselves think and can do.
- We do not pay enough attention to the specific causes of poverty in a particular country: for example conflict, or lack of land, or weak government institutions, or inadequate markets, or usually a multifaceted combination.
- The outside world too often has decided what would be best, rather than the government building wide ownership of a national strategy.
- Finally, we have not done enough internationally. A new approach is needed.

Poverty Reduction Strategies

At the Annual Meetings of the World Bank and International Monetary Fund (IMF) in 1999, the world community decided on a new approach. Countries are invited to design their own Poverty Reduction Strategy. This is written up into a Poverty Reduction Strategy Paper (PRSP), which becomes the basis for donor support. PRSPs are developed from existing government policies that set out the actions and strategies needed to reduce poverty. If the country does not already have a comprehensive strategy, an Interim PRSP (I-PRSP) is produced and this will include the timeframe and process for developing the full PRSP.

To access debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative, countries must have at least an interim PRSP. Final, irrevocable relief is delivered when countries have a full PRSP in place and have implemented key poverty reduction actions, agreed in advance with the international community. PRSPs are also used to access the IMF's new lending facility for low income countries, the Poverty Reduction and Growth Facility (PRGF).

Ownership

The basic principle of the PRSP approach is national ownership. A government will only implement policies that it believes in. So the PRSP has to be written in-country, by the government. It also has to become and remain the important document: donors need to subordinate their other documentation to the PRSP. Key to ownership is choosing between options – for example looking at the potential impact on poverty of different patterns of government spending. These need to be debated, which implies developing the capacity of independent research institutions as well as the government. To ensure real ownership, a wide variety of groups need to be involved in this debate and priority setting: the government (including local government and environment agencies), civil society and political opposition parties.

In particular, participation can improve the PRS process, as Uganda has demonstrated. The views and knowledge of the poor are important in diagnosing the causes of poverty. Policies are more likely to succeed if their choice has been influenced by civil society consultation and the voices of the poor. As a strategy comes to be implemented, the government will get clearer signals about what is happening if poor people are involved in monitoring progress.

Analysis

A national Poverty Reduction Strategy needs to be based on understanding the reality of poverty in that country, and the opportunities for tackling it. From there it will go on to propose targets for reducing poverty, linked to the International Development Targets, with a system for monitoring performance.

In **economic** terms, a PRS should be based upon a better analysis of trends over time in growth and poverty reduction. A key issue is to better understand how to stimulate the sort of growth that encompasses the sectors and activities in which the poor participate. Is the small-scale enterprise sector (including agriculture) growing? Are opportunities for unskilled waged employment increasing? What are the key constraints faced in these sectors? Can men and women benefit equally from the growth process? What impact is growth having on the environment, and will such growth and any resultant poverty reduction last?

In **structural** terms, a PRS would look at the main social, political and governance constraints which hinder the poor's ability to built up their assets base (e.g. land and natural resources, finance and credit, human capital) and use it to achieve a higher standard of living These are likely to include key causes of income and gender inequality, not least because reducing these inequalities can stimulate growth. It is also important to understand the effect of national reforms on different groups, particularly the poor, so that policy-makers can consider what appropriate measures need to be taken.

Economic growth and **social justice** are interdependent. Both at the UN and in Washington, the UK is promoting discussion about principles of good practice in social policy, building on the declaration from the 1995 Copenhagen Summit on Social Policy. Principles relevant to PRS include:

- Achieving universal access to basic social services
- Enabling all men and women to attain sustainable livelihoods
- Promoting systems of social protection against shocks
- Fostering social integration
- Promoting conflict resolution and economic reconstruction in war- torn societies
- Empowering all men, women and children - including democratic participation and freedom from violence.

In order for a PRS to lead to truly sustainable development, the integration of **environmental considerations** is also required. In addition to addressing the environmental consequences of economic growth, a PRS should also aim to show how good environmental management can make a positive contribution to poverty reduction. This would involve looking at how environmental improvements can enhance the health, livelihoods and security of the poor.

A PRSP should also include measures to improve **governance**, poor people frequently stress how important it is to them that they are safe and secure, and have access to justice. That may require institutional reform within central and local government. Furthermore, governance reforms that improve transparency and accountability and combat corruption are often needed to improve service delivery (for example of basic health care, education) to the poor.

The government's ability to act depends heavily on how it raises and spends its finance. A medium-term budget framework allows a government to plan a **spending pattern** that targets poverty and is sustainable over time. It links planning poverty reduction strategies to the resources allocation. Which sectors money is spent on should derive from the analysis of poverty and the opportunities to reduce¹. Usually that will lead, for example, to health and education featuring strongly. Of course a better-funded school is of little benefit if the curriculum is inappropriate or the teacher does not turn up: the PRSP should deal with issues of policy, sustainability, and quality of service, as well as expenditure.

Elements of a full PRSP

The PRSP needs to include, in whatever format:

Analysis

- nature of poverty
- obstacles to, and opportunities for, poverty reduction and faster growth: macro-economic, structural, environmental, social and institutional
- trade-offs and win-win scenarios in policy choices: options

Goals

- long-term for key anti-poverty targets
- priority public actions
- indicators and monitoring system

Policy actions - economic, structural, environmental, social and institutional

Medium-term budget framework

Financing plan

External assistance - requirements & coordination

Participatory process

- who was consulted when and how?
- how does PRSP content reflect the outputs of consultations?
- involvement of civil society and government in PRSP monitoring, implementation and dissemination

Realism

This agenda can seem hugely ambitious, and a blueprint approach will not work. There would be a real cost to over-stretching the reform agenda in any particular country. Donors and government can easily conspire to pretend that they are undertaking sophisticated policy analysis and actions, whilst in fact overstretching capacity to the point that otherwise-achievable reforms do not happen.

So it is very important to start where the country is. That is essential for ownership. It is also essential for success: adapting and reforming existing procedures is generally much easier than uprooting them.

Countries vary - for example, in their political structure and size; in the strength of their governance systems, and policy commitments; in their vulnerability to disruption. In a stronger case, the PRSP can endorse the mainstream government policy process, and donors can provide budget support. In a weaker case, we may look for measures which increase transparency and accountability, reinforce the ability of poor people to influence the policy process, and promote more pro-poor alliances.

Progress

All countries that are eligible for the World Bank's concessional lending (IDA) or for debt relief under the HIPC initiative are producing Poverty Reduction Strategies. Uganda, Burkina Faso Tanzania and Mauritania have produced full PRSPs. I-PRSPs have been produced by more than 20 countries to date, and a further 15 could be presented by the end of 2001. The completion of full PRSPs depends on each country's own process, but as many 20 countries could have presented their full strategy by the end of this year.

International action

International aid will be an important fuel for poverty reduction strategies. But at the moment, aid-giving countries each inflict on developing country governments their own dialogues, visits, reporting and monitoring requirements. Ministers and civil servants in developing countries have to spend too much time on the detail of each relationship.

Nationally-owned Poverty Reduction Strategies offer a major new opportunity. The British government is pressing other donors to take Poverty Reduction Strategies as the basis for their aid. In countries committed to poverty reduction, our bilateral country strategies will take their lead from the PRS. We are committed to harmonise bilateral aid practices - in design, procurement, monitoring, audit and so on - so as to reduce pressure on national authorities. Where governments have sound poverty reduction strategies, donor focus should shift from individual projects to assisting the government with programmes across a whole sector, such as health, or to the government budget

as a whole. The role of the World Bank and the IMF is shifting away from direct policy prescription to facilitating country ownership. This requires a great deal of training of existing staff, as well as reconsidering the skills and the organisational structure of the institutions.

National poverty reduction strategies would not work in a hostile global environment. Developing countries need access to the world's markets, and to the very best investment. In December 2000, the British Government published a White Paper: Eliminating World Poverty: Making Globalisation Work for the Poor, as a contribution to the debate on how to manage the forces of globalisation to benefit the poor.

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