Poverty Focus in National Plans and Poverty Reduction Strategies: Some Issues

by

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1. Introduction

ADB announced its Poverty Reduction Strategy (PRS) in 1999, making poverty reduction the overarching objective of its operations. The Strategy rested on the three pillars of promoting pro-poor sustainable growth; social development; and good governance. Although this very broad approach has guided ADB’s operations since then, ADB has long recognized the importance of a country-specific approach to poverty reduction. ADB’s country strategies and programs have traditionally been rooted in national development plans, or national development strategies. All projects have, in addition, been required to establish the links to national plans, strategies and policies. The need to focus on country specific priorities has been particularly emphasized in the PRS review conducted in 2004.

Starting in 2000, three new modalities were introduced to sharpen the poverty focus of ADB’s country strategies and programs: (i) country poverty assessments (CPAs) were used to determine poverty reduction targets and to establish strategic priorities with country stakeholders and development partners at a high-level forum; (ii) poverty partnership agreements (PPAs) were concluded to reflect priorities agreed upon by governments and ADB; and (iii) country strategies and programs (CSPs) were formulated based on country-specific analyses of the poverty situation (including assessments of environment, gender, governance, and private sector development (PSD), ADB’s own capacity, and assistance programs of development partners.

The introduction of PPAs was an innovative approach to formalizing bilateral agreements on country-specific and country-owned measurable targets, particularly in instances where countries did not have definite goals and targets for poverty reduction or strategies to achieve them. To date, 24 PPAs have been concluded and these have provided an effective framework to guide operations. By including clear targets for tracking performance in poverty reduction and public policies, the PPAs foreshadowed ADB’s adoption of a results-based approach to country strategy and program formulation.

Since 2000, however, most DMCs have formulated and adopted national poverty reduction strategies or have included them in their national development plans. The purpose of the NPRSs has been to set priorities, guide, focus and build ownership and commitment for the national poverty reduction effort. Given their emergence, it has been felt in ADB that NPRSs rather than the bilateral PPAs should be the main basis for developing ADB’s own country strategies and programs. The focus has thereafter shifted to strengthening the NPRSs as these represent the governments’ main development strategies for poverty reduction which ADB country operations should support and around which development partnerships have to be built. Unless the NPRSs are properly prepared, however, not only would the governments’ own efforts at poverty reduction be ineffective, the strategies of the development partners supporting the NPRSs would also fail to achieve their objectives.

2. Mainstreaming Poverty Focus into the National Planning Processes.

Governments in Asia-Pacific have been preparing national development plans well before the introduction of the ADB’s Poverty Partnership Agreements (PPAs) or the NPRS/PRSP process. While some countries have been preparing separate NPRSs (or Poverty Reduction Strategy Papers), others incorporate poverty reduction strategies in national and sector plans. Indeed, some of the countries in the region which have registered the most rapid gains in poverty reduction (i.e. China and India) do not prepare separate NPRS documents, but do accord careful consideration to poverty reduction as part of
their national planning processes. However, in cases of several other national development plans, while poverty is referred to, neither specific targets for poverty reduction are set, nor well defined or feasible strategies supported by concrete programs to achieve poverty reduction targets established. In view of this, the PPAs were introduced by ADB and later the NPRS/PRSP process was launched with the support of donors who wanted to see a credible national strategy for poverty reduction that they could themselves assist. A process of "mainstreaming" of poverty focus within the national planning processes and streamlining monitoring and reporting procedures will therefore be beneficial.

There are distinct advantages of "mainstreaming" poverty reduction into national development plans where they exist rather than preparing separate poverty reduction strategy documents. First, this will prevent duplication and confusion as poverty reduction strategies essentially have to be well integrated in countries’ overall development strategies if they are to be effective. Separately prepared poverty reduction strategies when national development plans also exist may not be fully consistent with them and may often lead to confusion amongst Government officials as to which to follow. Second, separate national poverty reduction strategies prepared through donor support and initiative are often not recognized as Government documents and not accorded the same status by officials. Finally, it is much more logical to begin by specifying poverty objectives within a development plan when it is being prepared and developing a consistent overall development strategy for achieving them rather than looking at how the national development strategy will have to be amended to achieve the poverty reduction outcomes as has been the effort in several separate NPRS/PRSP efforts.

3. Elements of a Sound NPRS: Lessons of ADB and its Partners

Lessons from the experiences of ADB and its development partners suggest that for an NPRS to be successful, it should have certain essential features and involve some critical processes. Some of these are:

i. Country-led and owned process. It is essential that the NPRS should be country led and owned. This will help improve commitments by the Government and all country stakeholders towards its fulfillment. High-level government and political support is essential to the eventual implementation of the NPRS. These would not be possible without strong country ownership. Widespread participation is essential to foster ownership by country stakeholders and can contribute to higher quality strategies, and strengthen country ownership of the measures adopted. A country led approach also improves the prospects of designing reforms that are tailored to country circumstances and feasible to implement, by appropriately prioritizing and sequencing public actions and programs and by focusing on strengthening country processes.

ii. Sound Analytical and Strategic Foundation. The NPRS should be rooted in a sound understanding of poverty conditions and of the constraints and opportunities for poverty reduction. The strategy should build on a candid appreciation of the role and contribution of different stakeholders in the poverty reduction process, and of the contribution that enabling public policies and programs can make to the poverty reduction process. The strategy for poverty reduction should ideally form an integral part of the country’s overall development strategy which would support its achievement. Such a strategy must demonstrate clearly how the targeted poverty reduction is to be achieved based on linkages to growth and other macroeconomic targets. The strategy must also demonstrate the realism of such a strategy

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1 The Indian 10th Plan document, for example, explicitly recognizes that the focus of development is not just expansion of production of goods and services, given by increases in per capita income, but on improvement of human well being which specifically requires that the basic material requirements of all sections of society especially those below the poverty line are met. The Plan targets an 8% growth in GDP as well as a 5 percentage point decline in poverty incidence by 2007 and a 15 percentage point decline by 2015. It also specifies targets for the non-income poverty and MDG indicators. It develops a specific strategy for achieving these through focus on growth, rapid employment expansion by encouraging expansion of employment intensive sectors, specific focus on agriculture and rural development, and targeted programs and schemes for the poor. It recognizes the importance of the private sector’s role and need to create a better atmosphere for its functioning and the need to involve the state governments in the overall process of development and poverty reduction.
based on past trends, expected availability of resources and policy and institutional changes that are being contemplated.

Given the development experience of the Asia-Pacific region, such a strategy should emphasize the following main development priorities (which have also been adopted in ADB’s PRS in response to the overall development experience of Asia-Pacific²):

a. **Pro-poor sustainable economic growth:** Rapid, broad-based economic growth has been found to be the single most important factor in achieving poverty reduction. The experience of the East and Southeast Asian economies highlights the importance of a dynamic public policy and an active state role in creating enabling conditions for rapid economic growth. The relationship between economic growth and poverty is two-way in nature. High, sustained growth increases labor demand and wages, reducing poverty. Better earnings lead to increased labor productivity and growth. Growth also improves public revenues and enables more public spending on physical and social infrastructure, helping reduce poverty as well as improving an economy’s productive potential. Given the general development experience of the Asia-Pacific region, countries need to pay heed to several important factors in their drive to enhance growth.

   First, while economic growth favors poverty reduction, broad-based, labor-utilizing growth can have a stronger impact. A combination of sound macroeconomic management and policies that encourage steady growth in employment has proven to be a powerful pro-poor measure. Second, in fostering growth, both the public and private sectors must play a role. The private sector has a direct role in building physical and social infrastructure including provision of basic services that will benefit the poor which must be encouraged. An enabling environment must be established, for it to play an effective part. Third, infrastructure development is essential for growth in the Asia-Pacific context. It has both social and economic effects. It can contribute to poverty reduction both indirectly by fostering growth and development, as well as directly through job creation and improving access to economic activities and basic social services. Fourth, an important way to accelerate growth is regional and subregional cooperation that offers larger markets, economies of scale, and division of labor. Such cooperation is especially useful for small countries with limited options. Finally, environmental sustainability is central to pro-poor economic growth.

b. **Inclusive social development:** Economic growth must be accompanied by effective social development programs that enable disadvantaged groups in society to benefit from the expanding opportunities it provides. Developing countries in the region should prioritize human capital development and adopt the needed policies, institutions, and infrastructure to deliver basic social services to the poor effectively. Consistent with the MDG philosophy agreed to by all countries, each person should have access to basic education, primary health care, and other essential services in order to create opportunities for poor people to improve the quality of their lives and to participate more fully in society. A proactive approach is necessary to help reverse social and economic discrimination and to promote initiatives that meet the needs of previously excluded groups. The reach and sustainability of social development is improved when all people, especially the poor and excluded, have an opportunity to participate in shaping public policies and programs. Ensuring that the voice of the poor is heard at all levels of decision making is central to the success of social development efforts. Social development efforts may need particularly to focus on (i) human development; (ii) gender and development; (iii) development of social capital of the disadvantaged; and (iv) and providing social protection to those who are vulnerable because of age, illness, disability, natural disasters, economic crises, or civil conflict. An important dimension of inclusiveness is from the geographical point of view as often pockets of poverty remain where development has not proceeded sufficiently. Where such types of exclusions are important, geographical inclusiveness should be emphasized through specific

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geographical targeting policies (see also section (v) below on targeted and non-targeted programs).

Given that the growth process in Asia-Pacific of late has often not been broad based and resulted in rising inequalities, a special focus of the analysis should be on the inequality trends and a discovery of factors that are causing less equitable growth and how to remedy it. Rather than focusing on mitigating inequalities, it may be wiser and more sustainable to forge a growth process that is pro-poor, pro-jobs and pro-employment from the very beginning. This may justify special targeting for the poor, including a geographical focus of public investments in poorer provinces. Such a geographical targeting needs, however, to be conducted in a scientific manner to help bring the maximum number of the poor out of poverty.

c. **Good Governance:** Good governance is critical to poverty reduction as weak governance hurts the poor disproportionately. Public sector inefficiency, corruption, and waste leave insufficient resources for basic public services and antipoverty programs. Good governance facilitates participatory, pro-poor policies as well as sound macroeconomic management that encourages economic growth and maintains price stability. But good governance is necessary in the private sector as well to protect depositors, investors, and consumers; to enhance competition; to increase efficiency; and to expand financial resources for all. As the Asian economic and financial crisis of 1997 has shown, good governance is also essential to avoid or reduce the severity of economic shocks in an era of increasing liberalization and globalization. Civil society has an important role to play in fostering good governance. Numerous nongovernment organizations (NGOs)—both national and international—are engaged in development work or in championing the legal rights of the poor. Their local knowledge, insights and support are essential for delivery of services to the poor.

iii. **Focus on both national and sub-national efforts:** Efforts at the national level alone may prove insufficient for poverty reduction if efforts at subnational (province, district and local) levels towards the NPRS are also not simultaneously forthcoming; or not coordinated or conflicting. In cases where authority for development work including resources have been transferred to sub-national levels through decentralization, it is essential that the national government ensure that there is a fully participatory development of the NPRS which is whole heartedly supported by all levels of government who all prioritize resources and efforts towards its fulfillment. This is a difficult and complex process and proper institutional mechanisms have to be developed to ensure that the process is effectively managed.

iv. **Focus both on income and non-income poverty and the MDGs:** Given that poverty has more than the income dimension, NPRSs should focus also on the non-income dimensions of poverty. With the international community’s consensus on the MDGs, all countries have agreed to ensure that significant improvements are achieved by 2015 on a critical minimum set of income and non-income poverty goals and indicators. There is agreement also that the international community will support national efforts on achieving the MDGs. The NPRSs should therefore integrate the MDG commitments with their national poverty goals and objectives. The MDG commitments could be localized within the NPRS—i.e. defined in a manner that is relevant for the particular country (such as the Vietnam Development Goals). The degree to which the country is on track towards meeting its MDG commitments should be addressed and strategies for getting back on track to meet MDG commitments should be identified if a country is currently considered to be unable to meet the MDG target.

v. **Consider both Targeted and Non-Targeted Programs for Poverty Reduction:** It may often be necessary to emphasize targeted interventions to reduce poverty where general growth and development

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3 The Viet Nam NPRS (CPRGS) has focused on investments in areas and sectors where such investments yield the highest returns. While this strategy maximizes growth, it has caused a concentration of investments in the richer provinces. In order to mitigate the inequalizing nature of such development, the NPRS calls for transfers to the poorer provinces. The Vietnam Development Report which is a joint poverty assessment prepared by donors, has suggested that such a strategy may not be sustainable.

4 A rigorous methodology was developed by ADB in its geographical focus of country operations in 2002 for Indonesia.
cannot root out poverty in certain areas or occupations or groups. Certain geographically disadvantaged areas such as hill tracts or remote areas may be cut off from the mainstream development processes and lag behind unless special measures are taken. Persons belonging to traditional occupations (such as fishing) may find their productivity drop due to environmental factors or others (such as rural artisans) find earnings dwindle due to lack of demand for their products. Or the poor may be subject to certain deprivations disproportionate to their share in population such as lack of education or ill health or access to basic services which may require specially targeted programs for remediing the situation. Governments therefore often adopt schemes and programs specifically targeted towards regions, or groups of households.

While directly targeted poverty interventions have strong appeal, there has been evidence that several targeted interventions in the region have failed to deliver tangible benefits to those intended owing to substantial leakages and other problems. In view of this, while targeted interventions may be used where the need is indicated as an efficient method of reducing poverty, lessons from evaluation of some recent targeted interventions should be used to bring about improvements in targeting schemes and ensure that such targeted programs do in fact succeed. In this context, two recent studies conducted by ADB which analyzes this issue\(^5\) may be illustrative to the problems involved:

- Malpractices have been a major cause of ineffective results from targeting programs. The need for checking malpractices and improving governance in public programs for the poor is therefore an essential element necessary for good delivery, calling for greater participation from beneficiaries and public accountability.

- Targeting has not yielded expected benefits often owing to technical errors in application. Thus geographical targeting has in many countries suffered from wrong classification according to criteria. In PRC, for example, the poor county program misclassified a number of counties while in the Philippines, independent ranking of provinces by the estimated degree of income poverty shows a considerable mismatch with the official provincial priorities. Pilot surveys for Indonesia show many of the poor (over 40% on some areas) living in villages that were not part of the national Neglected Village program.

- Geographical targeting has also often not succeeded as projects located in geographically identified poor areas did not address the main constraints that prevent households from exiting permanently out of poverty. Location of rural road projects, while helping temporarily create work, does not provide sustainable wherewithal to poor farm workers in labor surplus areas. In such areas, projects that encourage private sector entry and enable setting up off farm employment; or projects that enable skill formation for enabling migration out of the area to other areas may be better.

- Self-targeting schemes were intended to overcome many of the problems faced by narrow targeting. However they did not work effectively in many cases as (i) many schemes such as the Indian food for work and programs which offered below market wages to attract the poor were not sufficiently funded; (ii) wage set was above market leading to a ‘crowding out’ of the poor, particularly in Indonesian employment creation schemes.

- Broad targeting, based on types of expenditure, which the poor will use disproportionately, offers an alternative to narrowly targeted schemes. Assessing their impact of measures like health and education expenditure is normally done by ‘benefit incidence analysis’. However, considerable leakage to the non-poor is found to be common.

Given these possibilities, targeted interventions in national poverty reduction strategies may have to be developed very carefully. Governments may also like to consider more general interventions which

have the potential to create large scale employment or indirectly benefit the poor through encouraging the private sector to increase growth or employment potential that could benefit the poor.

vi. Address institutional constraints. Institutional factors (both formal and informal) are important constraints to poverty reduction in many countries and the NPRS should adopt policies and strategies to address them. These constraints often impact on growth and inclusiveness such as openness or lack of it; trade, investment (including foreign investments) and industrial policies that affect growth; impediments to structural transformation needed for growth; factors impeding functioning of markets, including labor markets; and restrictions on access to resources and basic services by the poor. The structure of government and its responsiveness are important; for example, the way the government hierarchy deals with poverty reduction issues and whether provision of basic services is impeded by the centralized nature of public services provision needs to be addressed. Where Government decision-making is highly centralized, the institutional capacity to respond to local, or area-specific constraints to poverty reduction, may be inadequate. In case of decentralization to local governments, capacity constraints often pose as important factors in delivery of services. Gender is an obvious and critical institutional issue in most countries of the region and public policy in addressing the gender dimensions of poverty needs to be discussed. The same is true for informal institutions that aggravate exclusions for indigenous peoples, those belonging to lower castes and minorities. Another important institutional issue is the nature of participation of the poor in public decision-making and whether the poor have an adequate voice in shaping policies that affect their welfare. The way the antipoverty government apparatus interacts with representatives of civil society and private sector in devising strategies and programs to reduce poverty may also need to be studied.

Given the close association between rapid employment generation and poverty reduction, addressing labor market issues and constraints should be an essential part of the analysis of institutions that any NPRS addresses. Proper functioning of the labor market is essential for economic growth to impact on poverty reduction, and suitable policy measures to improve its performance to promote rapid growth of employment should be adopted. Since a significant proportion of the poor work also in the informal sector, the main emphasis should be on both informal and formal employment generation, and institutional and policy barriers to labor-absorbing growth.

vii. Medium- to long-term in perspective. Within an NPRS, development objectives should be defined in the context of a long-term development vision, and a set of strategic initiatives should be formulated over the medium to long term to address capacity, institutional, economic and social constraints to growth, social development, and the achievement of better development results. This will ensure sustainability of efforts over the medium to long term which is essential if programs for poverty reduction are to be effective.

viii. Costed and budgeted. Realistic priorities should be set for public support to poverty reduction based on proper and pragmatic assessment of resources that will be available for the investment programs supporting the NPRS. This requires that the main poverty reduction programs be costed, that a medium-term public expenditure framework that reflects these programmatic priorities be defined, and that the poverty reduction priorities identified in the NPRS are supported by the annual budget process. All too often the NPRSs are too general and far too ambitious. Ideally, they should have an investment program that is prioritized towards achieving poverty reduction and the MDGs, and not just an

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6 Given relatively high levels of leakage in targeted interventions, the ADBI study feels that in practice most targeting measures will have been high cost means of transferring benefits to the poor. For India, for example, the ADBI study suggests from a comparison of employment guarantee schemes and food subsidies that at best the cost of transfer is nearly double the benefits received by the poor. Separate estimates of the cost of the employment guarantee schemes in three states suggest that the cost per job created was more than four times the wage paid. The operations of the National Food Authority (NFA) in the Philippines, particularly through its rice subsidy, have also been costly.


8 The ADB 2005 Key Indicators theme chapter on Labor Markets in Asia: Promoting Full, Productive and Decent Employment provides an overview of the main labor market issues in the region.
amalgamation of the investment programs of all line ministries. This prioritized investment program should be supported by annual budgets within a medium-term expenditure framework. The investment program should account for private investments also and encourage private investments in a larger set of areas including those where public operations can be substituted by private effort, so that the public sector can focus on areas where private returns are low but social returns are high.

ix. Results-oriented. The NPRS should incorporate a multidimensional view of poverty and of the approach to reducing it, build on a sound understanding of the causal linkages between strategic interventions and intended outcomes. Attention should be accorded to setting clear targets for poverty reduction and achieving the MDGs, and to putting in place effective monitoring arrangements to help ensure that strategic initiatives are implemented and progress achieved.

x. Based on partnerships. The NPRS should provide the context for improved partnerships between government, the private sector and other domestic stakeholders, and external partners. Strengthened partnerships help foster a sense of shared responsibility for achieving improved poverty reduction results. Such partnership building should ideally be led and coordinated by the Government and not left to develop as a discourse amongst the donor community alone and as a separate exercise with weak participation from the Government as is all too often the case.

The recent Cambodia example provides an illustration of the actual processes and difficulties as well as the successes achieved through close cooperation between development partners. Cambodia's National Poverty Reduction Strategy of 2003-2005 was one of the first to be completed in the region, and inspired excellent cooperation amongst the development partners. However, as direct feedback from beneficiaries was considered essential, a participatory poverty assessment was also prepared (with ADB support). In addition to the NPRS, the Government had also prepared the Second Socio-Economic Development Plan 2001-2005 (SSEDP) supported by donors including ADB, which also had influence (possibly more than the NPRS) within Government. To bridge the uncertainty caused by two somewhat distinct documents, ADB, World Bank and DFID aligned and harmonized the preparation of their respective country strategies and programs around both the NPRS and the SSEDP. To help avoid such uncertainty in the future, the Government of Cambodia and its development partners had agreed that the Third Socio-Economic Development Plan 2006-2010 will be a single planning document, and will mainstream strategies for poverty reduction.

There is also need for the donor community to align and harmonize their assistance in order to reduce the confusion that different processes and policies advocated by donors may cause. The donor community has also responded to this by adopting principles (such as under the Paris Accord) for better alignment and harmonization of aid.

Effective partnering around a country’s NPRS will imply that the process lead to an identification of actions that the Government along with its domestic stakeholders particularly the private sector and domestic civil society itself are taking and thereafter a clear understanding of gaps in resources that remain so that the targeted reduction in poverty and the attainment of the MDGs can be realized. A close integration and synergy of programs of assistance is called for among the development partners to bring this about.

4. Building Capacities and Institutions for NPRS

Some developing countries do not have either sufficient data or institutional capacities to develop detailed poverty reduction strategies. In the Pacific region, for example, only a few countries such as Papua New Guinea and Timor Leste have prepared NPRS/PRSPs. Data deficiencies limit the preparation of strategic analyses that are needed to underpin poverty reduction strategies. In many countries in the Asia-Pacific region, there is an extreme lack of capacity to design and implement any development strategy, and to sustain pro-poor policy design, formulation, implementation and monitoring. Moreover, national development strategies are rarely translated into pro-poor policy formulation, and
backed by medium-term budget frameworks. Capacity to gather poverty and other data and analyze them; as well as formulate strategies and develop policies that support the overall poverty reduction effort are all essential. This however requires appropriate capacity developed in statistical and national planning agencies.

In addition, institutional measures need to be established for effective inter-ministerial coordination as well as capacities built up with line ministries. Line ministries are responsible ultimately for implementing the NPRS and the sector strategies and plans must fully support the NPRS. The national investment plan should not be a mere aggregation of the plans of line ministries but should clearly set sectoral priorities and allocate resources and budgets in line with the priorities set out in the NPRS. In addition, capacity building is particularly necessary at the sub-national levels where it is weakest. Given the increased need to mainstream pro-poor elements in development planning at all levels, the need for capacity building assumes importance and could be a critical constraint to effective poverty reduction. In addition to formulating development plans that target poverty reduction by line ministries and sub-national governments, capacity is essential also during the implementation phase as good plans may prove unsuccessful if implementation of the various programs is weak.

In particular, capacity to track progress in NPRS implementation and to assess results and suggest mid course alterations and corrections is also essential. The establishment of targets and indicators in plans/strategies provides for a focused identification of results sought and allows government and external stakeholders to monitor results achieved. The MDGs establish an internationally-agreed framework for results areas and a basis upon which countries can build to establish realistic national targets. Several of these activities are relatively new for developing countries in the region and programs of capacity building in these areas will be needed.