

Overview

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Introduction

Despite modest reductions in poverty in recent decades, progress has been less than hoped for, 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. Particular concerns exist about the level of financial resources dedicated to reducing poverty and the ways in which aid, including assistance from the World Bank and the International Monetary Fund (IMF) and debt relief have been delivered. The old model of a technocratic government supported by donors is seen as incomplete and ineffective. 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 the societal and institutional structures within which they operate.

Although poor performance in reducing poverty has many causes, analysts agree that action is needed on both the domestic policy and external assistance fronts. The two sets of issues thus raised are (1) how to identify and implement effective strategies to reduce poverty and (2) how to modify external partnerships and assistance to reduce poverty more effectively.

In late 1999, the World Bank and the IMF launched a new approach to the provision of concessional assistance to low-income countries.¹ Following this new approach, governments in low-income countries would prepare their own Poverty Reduction Strategy Papers (PRSPs) through a participatory process, and these PRSPs would provide the foundation for external assistance, as well as debt relief, by the World Bank and the IMF. The PRSPs would also provide the framework for improved aid coordination among external partners.

The PRSP approach was designed to serve several objectives that complement the primary objective of reducing poverty in its various dimensions in low-income countries. First, given that policy reform programs, however well designed, are unlikely to be sustainable, or even implemented, without full country ownership of the program, underpinned by a substantial degree of domestic consensus, strengthened national ownership of national policies and programs should be paramount (Collier and Dollar 1998; Devarajan and Dollar 2001). The key principles of the PRSP initiative match those of the Comprehensive Development Framework: the strategy should be prepared by the government through a *country-driven* process, including broad participation that promotes *country ownership* of the strategy and its implementation. Second, country ownership of PRSPs would constitute a mechanism to link the use of debt relief under the enhanced Heavily Indebted Poor Country (HIPC) initiative to public actions to reduce poverty, and provide a framework for all World Bank and IMF concessional assistance.

While the early experience with the PRSP approach suggests that it holds considerable promise for improving the effectiveness of development assistance for reducing poverty in low-income countries, the process of preparing and implementing Poverty Reduction Strategies (PRSs) will take time, and it will involve learning by doing. The purpose of *A Sourcebook for Poverty Reduction Strategies* is to provide guidance and analytical tools to countries developing PRSs. The book is a collection of broad policy guidelines, examples of international best practice, and technical notes for more technically oriented readers. As elaborated below, it is not intended to be prescriptive, nor does it attempt to provide “the answers.”

Dimensions of poverty

Poverty is multidimensional, extending beyond low levels of income, as the *World Development Report 2000/2001* emphasizes. This book considers the following dimensions of poverty:

- **Lack of opportunity.** Low levels of consumption and income, usually relative to a national poverty line. This is generally associated with the level and distribution of human capital and social and physical assets, such as land and market opportunities that 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 socioeconomic group.

- **Low level of security.** Exposure to risk and income shocks that may arise at the national, local, household, or individual levels.
- **Empowerment.** Empowerment is the capability of poor people and other excluded groups to participate in, negotiate with, 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 it will highlight the fact that the poor suffer from multiple deprivations.

Overall feedback from developing countries suggests strong support for this expansion of the concept of poverty. While there is wide support for multidimensional perspectives on poverty, many countries also recognize the practical and operational difficulties associated with that expansion. These difficulties manifest themselves in various ways. First, while inclusion of the vulnerability and security, and powerless and empowerment dimensions is generally welcomed, it is acknowledged that our understanding of those dimensions is much more limited than our understanding of more conventional or standard dimensions. Second, the *World Development Report 2000/2001* framework does not offer guidance on how to weight the relative importance of policy action on 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.

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

What is a Poverty Reduction Strategy Paper?

The international development community has mandated that all low-income countries receiving debt relief under the HIPC initiative or concessional lending from the World Bank, through the International Development Association, or the IMF, through the Poverty Reduction and Growth Facility, should develop country-owned PRSPs; these are on the agenda of some 70 low-income countries.

Almost all external development partners have expressed their strong support for the objectives and principles of the PRSP approach, their eagerness to work with governments in preparing strategies, and their intention to adjust their own programs to support these strategies. For example, the European Union decided to base its five-year assistance programs in African, Caribbean, and Asian Pacific countries on PRSPs. Key bilateral donors, including the Netherlands and the United Kingdom, see PRSPs as playing a leading role in shaping their development assistance. Many governments have begun to use the PRSP process as a means to improve aid coordination. To this end, countries such as Burkina Faso and Uganda have presented their strategies to donors. Countries have also invited donors other than the World Bank and the IMF to provide advice and assistance in preparing better PRSPs. A number of governments have presented their full or Interim Poverty Reduction Strategy Papers (I-PRSPs), or draft PRSPs, to formal Consultative Group meetings or roundtables.

The principles underpinning the PRSP program suggest that these strategies should be:

- country-driven and -owned, predicated 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 and coordinated participation of development partners (bilateral, multilateral, nongovernmental) in supporting country strategies; and
- based on a medium- and long-term perspective for poverty reduction, recognizing that sustained poverty reduction cannot be achieved overnight.

It has been recognized that preparation of country-owned, participatory PRSPs could take some time. In order not to delay progress in providing concessional assistance or debt relief, countries can prepare I-PRSPs that 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 (for which the outer years would be tentative).

While the majority of I-PRSPs and PRSPs to date have been prepared by African countries, a significant number are being prepared in Europe and Central Asia, in Latin America and the Caribbean, and in East Asia. The total number of papers brought to the executive boards as of end-July 2002 was 43 I-PRSPs and 19 PRSPs.

When a government presents a PRSP to the executive boards of the World Bank and the IMF, it is accompanied by an assessment by Bank and IMF 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 IMF and the Bank. A positive assessment does not necessarily indicate that the staff agrees with all of the analyses, targets, or public actions set forth in the PRSP, or that it believes that the PRSP represents the best possible strategy for the country. It indicates rather that the staff considers that the strategy provides a credible framework within which the Bank and the IMF can design their assistance programs.

While the shift to country ownership will allow substantially more leeway in terms of policy design and choices, acceptance by the Bank and the IMF boards will depend on the current international understanding of what is effective in lowering poverty. Five basic elements of a full PRSP were set out in broad terms in the earlier board papers (see note 1) and are reflected in the guidelines for staff in preparing JSAs. These elements are the following:

1. Assessing poverty and its key determinants
2. Setting targets for poverty reduction
3. Prioritizing public actions for poverty reduction
4. Establishing systematic monitoring of poverty trends and evaluating the impact of government programs and policies
5. Describing the main aspects of the participatory process.²

Low-income countries and donors have requested further elaboration of the aspects of content and process that are likely to raise concerns with the joint boards. Hence this overview provides more specific guidance in what constitutes good practice, drawing on the JSA guidelines. Box 1 lists the priority content areas for public action in a PRSP.

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

- the type of governments and their degree of representativeness;

Box 1. 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:

1. Macroeconomic and structural policies to support sustainable growth in which the poor participate
2. Improvements in governance, including public sector financial management
3. Appropriate sectoral policies and programs
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. Judgments in the JSAs are grounded in country conditions and have to be made based on the extent of the country's progress 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 tables (a) presenting the country's macroeconomic framework; (b) summarizing the overall public expenditure program (capital and recurrent) and its allocation among key areas; and (c) setting out key policy actions and institutional reforms and target dates for their implementation (a policy matrix).

- 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 and are active among the poor;
- the relationships with external partners, such as the United Nations Development Programme, and other U.N. 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.

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 book should be read in that light.

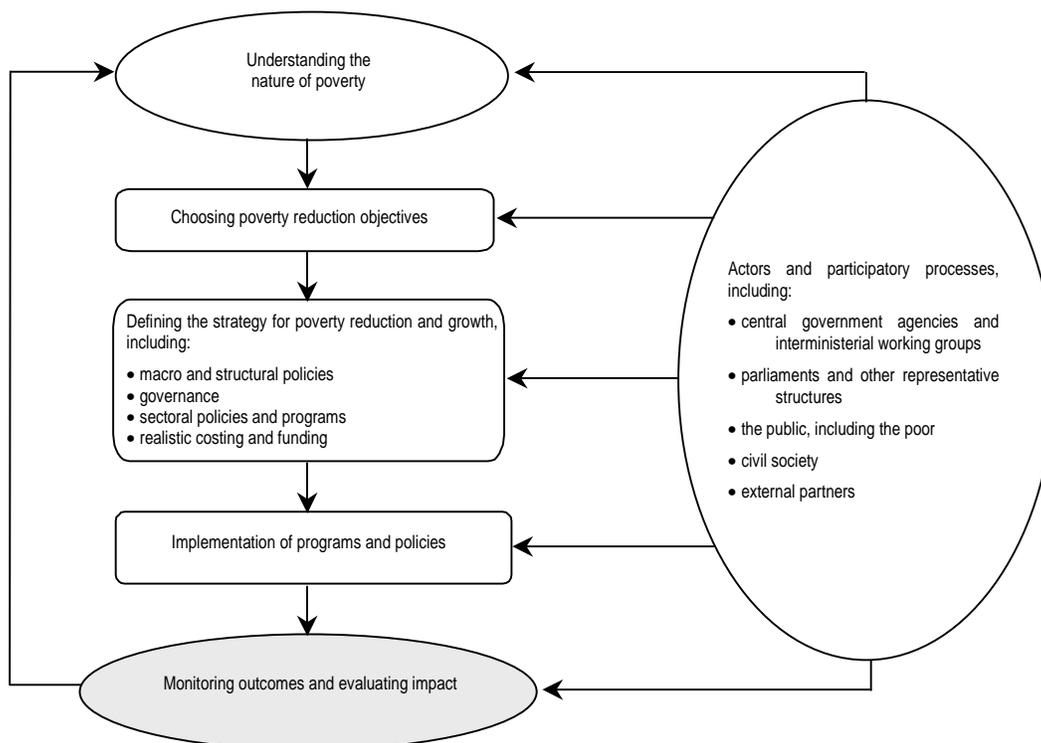
The process of developing a Poverty Reduction Strategy

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

The process can be thought of in terms of several phases, although certain elements, particularly participatory processes, may run throughout. These phases are shown in figure 1. The next section deals with each of the stages in turn.

Broad-based consultations on priorities and policy issues with civil society, citizens' groups, and external partners should influence the strategy. The design and execution of the participatory process, however, is a matter for the national authorities. Chapter 7, "Participation," provides guidance on this process.

Figure 1. How a PRS Can Unfold at the Country Level



To provide clarity and to help structure its description of the participatory process, JSAs 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 subnational 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; and
- 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 policymaking and decisionmaking.

It is important that the PRSP build on and provide consistency with other current government processes and resulting documents that set forth national or sectoral development plans and budgets. It is, therefore, also important to build on existing strategies and plans, as far as possible, at the sectoral and national level. Existing national strategies, or national development plans that would have been prepared in any case, provided that these are consistent with the guiding principles of the PSRP approach, may be considered to be the PRSP, as is the case in Uganda with the Poverty Reduction Eradication Plan and Mozambique’s Plano de Acção para a Redução da Pobreza Absoluta (PARPA) [*English translation: Action Plan for the Reduction of Absolute Poverty*], which also predated the PRSP initiative.

It is important that PRSPs reinforce, rather than compete with and undermine, existing democratic institutions and processes. Therefore, PRSPs are expected to be fully based on the formally approved policies and budgets of governments, and their preparation should follow appropriate domestic channels, complemented as appropriate with a greater degree of openness and transparency than may have otherwise been the case.

There are important linkages between implementation of the strategy and the annual budget cycle, Medium-Term Expenditure Frameworks where they 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.

Box 2 provides brief tips drawn from a retrospective study on the participatory processes in the I-PRSP and full PRSP countries, which are elaborated in chapter 7, “Participation.”

Improving coordination of donor support and minimizing overlaps will also be important. Providing a vehicle for better aid coordination is an explicit objective of the PRSP approach. From the outset, the World Bank and the IMF have stressed that this initiative would fail if PRSPs become only documents that mediate the relationship between a government and the Bank and the IMF. Instead, it is envisioned that the PRSP will be the primary instrument by which a country articulates a strategy around which external development partners could align their own programs of support. 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 Poverty Reduction and

Box 2. Participatory Processes

In establishing participatory processes, the following might be helpful to bear in mind:

- **Asking a steering committee with wide representation to manage the process to encourage broader participation**
- **Analyzing carefully 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 predetermined mechanism, such as a checklist of ideas.**

Growth Facility, and from the World Bank as spelled out in its Country Assistance Strategy. After July 1, 2002, all Country Assistance Strategies in low-income countries will normally be based on a PRSP and will present the World Bank's business plan in support of the country's PRSP.

From Understanding Poverty Outcomes to Public Actions

In general, as figure 1 suggests, a fully developed poverty strategy would be expected to cover 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.
4. How do we know we are getting there? A systematic approach to monitoring poverty outcomes and intermediate indicators is key to the integrity of the overall approach.

Together with a description of the participatory process, these questions correspond to the basic elements of a PRSP set out in the introduction to this overview. This section highlights what is envisaged by these four questions and, as already stressed, the depth and nature of treatment will vary considerably across countries.

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 poverty's multidimensional nature by going beyond consideration of income and asset holdings of the poor to encompass the nonmonetary dimensions of poverty, particularly 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 movement out of poverty. This could include interactions among the different dimensions of poverty. The techniques needed to investigate these dimensions are presented in chapter 1, "Poverty Measurement and Analysis."

At the microeconomic level, national authorities should understand where the poor live, how they earn their living, and the types of physical assets they possess (land or other inputs). Labor market diagnostics can be used to assist in identifying the trouble spots where policymakers 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 labor force participation and unemployment rates, the levels and distribution of earnings and productivity, and formal versus informal shares in employment. At the macroeconomic 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 data by regions and by demographic group, including by gender
 - Quantitative data complemented by qualitative information
 - Accessibility of data for policy analysis, especially outside of government
2. Analysis to identify the nature and determinants of poverty outcomes (broadly defined) and of trends over time

- Extent of income or 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 microeconomic 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 shows a decision-tree type of 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 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 patterns of public expenditures, service delivery, and systems for budget management are important (see chapter 6, “Public Spending”).

An effective outcome-driven PRS 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 PRS. Further guidance on how to build or strengthen statistical capacity, and rally donor support for these efforts, can be found in chapter 5, “Strengthening Statistical Systems.” External partners could provide funding and resources in many of these areas.

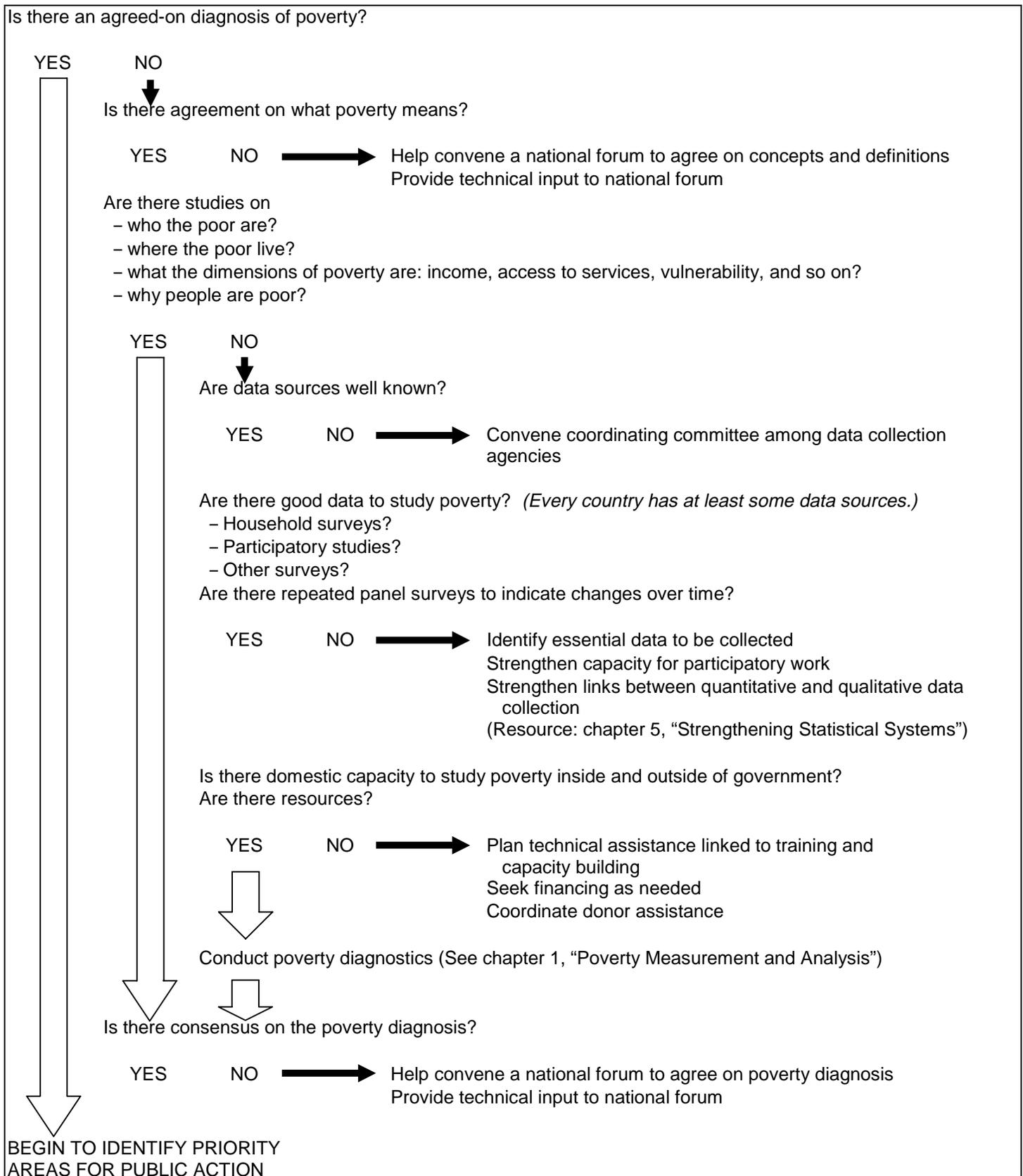
The next section suggests a framework for understanding poverty and its determinants, along the dimensions of opportunities, capabilities, security, and empowerment. The intention here is to illustrate some key causal relationships and interrelationships, rather than to provide exhaustive detail. Many of the themes are picked up in other chapters of the book.

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 nonincome measures of poverty. Domestic policies have an important effect on sustained growth, including 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 chapter 12, “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, 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 (quotas and terms of 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) has generally been associated with economic growth. Structural policies to improve the functioning of markets are thus critical. Similarly, good governance is crucial to accelerating private investment and thus economic growth.

Figure 2. Possible Steps in Identifying Poverty Data Needs and Uses



Well-functioning labor markets play a central role in reducing poverty (see, for example, chapter 15, “Rural Poverty”). Therefore, removing obstacles to job creation, especially among small and medium-size enterprises, and creating an environment conducive to private sector development will be an important element of the overall PRS.

Various types of asset endowments directly influence the well-being of the poor, including the following:

- **Human capital.** Investment in human capital is the most widely accepted way of improving the asset base of the poor. A close association exists between health and agricultural labor earnings and education and higher earnings from nonagricultural 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 chapter 6, “Public Spending”; chapter 8, “Governance”; chapter 18, “Health, Nutrition, and Population”; and chapter 19, “Education”).
- **Infrastructure.** 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 for the poor and can reduce their ability to use social services, engage in productive activities, and access employment opportunities. Nonagricultural activity tends to be greater in those areas that are better served by rural infrastructure (see chapter 15, “Rural Poverty,” and chapter 20, “Private Sector and Infrastructure: Overview”).
- **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 chapter 8, “Governance”; chapter 15, “Rural Poverty”; and chapter 16, “Urban Poverty”).
- **Credit.** Access to financial services is often problematic for the poor, partly because the poor lack the 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 chapter 15, “Rural Poverty”).

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.

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 chapter 1, “Poverty Measurement and Analysis”).

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

- Are capability gaps the result of differences in how the poor and the nonpoor use relevant services (for example, in the use of health care facilities), to unequal physical access to services, or to constraints at the household level?
- Does 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 use 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 chapter 6, “Public Spending”)?
- 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?

Chapter 17, “Social Protection”; chapter 18, “Health, Nutrition, and Population”; chapter 19, “Education”; and chapter 22, “Transport,” provide guidelines for further analysis at the sector level. There are also important intersectoral relationships (see chapter 6, “Public Spending,” and chapter 8, “Governance,” for further discussion of intersectoral synergies).

Security

Insecurity can be understood as vulnerability to decline in well-being. The shock triggering the decline can occur at the microeconomic or household level (for instance, illness or death); at the meso or community level (pollution or riots); or at the national or international level (national calamities or macroeconomic shocks). In poor rural areas the most important risks are those affecting the harvest (see chapter 15, “Rural Poverty”). Vulnerability need not be unexpected and could be seasonal. Everywhere, the risk of illness is a prime concern of the poor (see chapter 18, “Health, Nutrition, and Population”). Chapter 12, “Macroeconomic Issues,” discusses the origins of macroeconomic shocks that lower the living standards of the poor. Structural reforms could be associated with increased short-term vulnerability of certain groups. See chapter 1, “Poverty Measurement and Analysis,” 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 microeconomic level can be offset, to some extent, by actions at the household level, but risks at the meso and macroeconomic levels will tend to require public actions to reduce the risk of the shock or to help offset its negative repercussions.

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, such as the 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 PRS. 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 in order to identify specific social protection strategies needed to reduce the risks faced by vulnerable groups. Public investment in effective safety net programs may well be an important element of a long-term strategy for growth and poverty reduction.

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

Table 1. Main Sources of Risk

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

Source: Adapted from Holzmann and Jorgensen (1999).

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 that constitute 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 extragovernmental activities, including mobilization by the poor through their own organizations to promote their rights.

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

- *At the household level*, empowerment refers to intrahousehold inequality, access to and control over resources, and decisionmaking processes (for instance, the desired number of children or whether to use contraception).
- *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 decisionmaking bodies at the local and national levels of government. Greater transparency and accountability increase 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.

Although 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, particularly chapter 8, “Governance”; chapter 7, “Participation”; and chapter 10, “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 could be identified—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. This should include analysis of the extent to which nonobservance of core labor standards, such as gender discrimination in the labor market, or child labor inconsistent with child development needs, is a problem.

Understanding linkages

At the country level, a PRS would be expected to recognize and deal with intersectoral links and complementarities, the interdependence between sectoral and macroeconomic 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 PRS 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 chapter 1, “Poverty Measurement and Analysis”). Several distinctions are especially important:

- **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 because of, for example, macroeconomic shocks.
- **Short- versus long-run factors.** 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.
- **Direct versus indirect causes.** 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 that may be a symptom could be having a large number of children.
- **Amenable or not amenable to change by public action.** Not all causal factors can be affected by public action, at least not 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.

Where do we want to go?

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 constitute 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 provide 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 chapter 4, “Development Targets and Costs.” The following are useful definitions:

- **Goals.** The objectives national authorities want to achieve; they are often expressed in nontechnical, 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, and so forth.
- **Targets.** The levels of the indicators that a country wants to achieve by a given time—for example, “to reduce income poverty by 10 percent by 2004.” These could be point estimates or a target range (e.g., by 10–15 percent).

Both macroeconomic and poverty indicators should be used to monitor progress. The indicators should reflect both the macroeconomic determinants of economic growth and the microeconomic-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. In doing so, the following points should be borne in mind:

First, indicators and long-term targets should be given for key poverty reduction goals, consistent with the country's long-term vision that emerges from, among other things, participatory processes. These indicators of long-term goals should include measures of economic progress and material deprivation (for instance, per capita income growth and measures of both the incidence and depth of poverty) and measures of human capabilities (for instance, 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 Millennium Development Goals, 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 (although 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.

Third, 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 Millennium Development Goals relevant to the different areas of poverty reduction.

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 chapter 3, "Monitoring and Evaluation"; chapter 4, "Development Targets and Costs"; and chapter 7, "Participation").

Fourth, it is important to keep in mind that marginal improvements in poverty indicators may become more difficult as the level of indicators improves. For example, it is more difficult to reduce income poverty from 10 percent to 0 than from 40 percent to 30 percent because the conditions of the most disadvantaged group generally become more difficult to improve.

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

First, the PRSP should define medium- and long-term goals for poverty reduction outcomes (monetary and nonmonetary), 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 the 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 indicative only 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 that have determined outcomes.

Table 2. Examples of Poverty Reduction Indicators and Targets

	<i>Intermediate indicator (inputs and outputs)</i>	<i>Final outcome indicators (outcomes and impact)</i>	<i>Millennium Development Goals</i>
Poverty and inequality	<ul style="list-style-type: none"> Percentage of roads in good and fair condition Productive asset ownership (land, cattle, or other physical capital) 	<ul style="list-style-type: none"> Poverty headcount Poverty gap Average income Gini coefficient Quintile ratio 	<ul style="list-style-type: none"> Reduce extreme poverty by one-half by 2015 Implement a national strategy for sustainable development by 2005 Reverse trends in the loss of environmental resources by 2015
Macroeconomic stability	<ul style="list-style-type: none"> Inflation Exchange rate fluctuations Unemployment Fiscal deficit 	<ul style="list-style-type: none"> Per capita economic growth rate Unemployment 	
Security	<ul style="list-style-type: none"> Unemployment rate Variability in production of chief staples Expenditure on and number of beneficiaries of public works programs 	<ul style="list-style-type: none"> Food consumption variability Income variability Wasting among children Malnutrition prevalence Death rate due to violence 	
Health	<ul style="list-style-type: none"> Immunization of children (%) (measles, DPT3, all, none) Treatment of diarrhea in children (%) Treatment of acute respiratory infection in children (%) Delivery attendance (%) (doctor, nurse, or trained midwife; % in a public facility, % at home) Use of modern contraception (%) Age at birth of first child Vitamin A supplementation for children Cooking fuel used 	<ul style="list-style-type: none"> Low-birthweight babies (% of births) Infant mortality rate Under-five child mortality rate Children stunted (%) Children underweight (%) Children with respiratory infection (%) Adolescent fertility rate Prevalence of anemia Total fertility rate Sexually transmitted disease infection rates Adult HIV prevalence Tuberculosis prevalence Life expectancy at birth 	<ul style="list-style-type: none"> Reduce infant and child mortality by two-thirds by 2015 Reduce maternal mortality by three-fourths by 2015 Universal access to reproductive health services by 2015
Education	<ul style="list-style-type: none"> Expenditure on primary education as a share of gross domestic product Percentage of schools in good physical condition Pupil-teacher ratio Teacher absenteeism rates 	<ul style="list-style-type: none"> Third-grade math and science scores Seventh and eighth grade math scores Adult illiteracy rate Female illiteracy rate Net enrollment ratio (primary, secondary, and tertiary levels and by gender) Pupils completing grade four (% cohort) Girls reaching grade five (% cohort) Girls' school life expectancy Repetition rates (by level of schooling and gender) Adult average years of schooling 	<ul style="list-style-type: none"> Universal primary education by 2015 Eliminate gender disparity in education by 2005
Empowerment	<ul style="list-style-type: none"> Access to media and the Internet Number of parties participating in last parliamentary elections Number of daily newspapers Female literacy rate Female control over earnings Number of television and radio stations 	<ul style="list-style-type: none"> Number of women in parliament and government Percentage of population voting in parliamentary elections (by gender) Prevalence of domestic violence Share of incarcerated population being held without charge 	

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 that are covered in chapter 3, “Monitoring and Evaluation,” and chapter 5, “Strengthening Statistical Systems,” including the transparency of arrangements for and results of monitoring the PRSP, including service delivery to the poor and adequate use of the results of monitoring and evaluation in policy formulation.

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 that 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:

1. Macroeconomic 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
4. Realistic costing and appropriate levels of funding for the major programs.

This section elaborates on 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 subtopics listed under these four areas. Joint Staff Assessments (JSAs) will judge whether, overall, and with respect to each of these four areas, the PRSP is satisfactory, relative to country conditions, as well as judge the extent of progress the country has made in addressing these issues.

Macroeconomic and structural policies to support sustainable growth

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

The macroeconomic framework should promote: (a) a level of inflation that does not undermine private sector growth; (b) an external position that is sustainable in the medium to long run; (c) growth that is consistent with the poverty reduction objectives laid out in the PRSP; and (d) an overall fiscal stance that is compatible with the PRSP’s poverty reduction and growth objectives. Experience to date suggests that countries are reiterating the importance of macroeconomic stability in their PRSPs and I-PRSPs, with a number of the full PRSPs and I-PRSPs to date moving to relax fiscal targets.

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 needs to be considered in the context of short-term crisis management and stabilization programs (see chapter 12, “Macroeconomic Issues”).

A PRSP is expected to address policy constraints (exchange rate controls) that 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. In the PRSPs and I-PRSPs to date, structural reform measures, including trade reform, privatization, financial sector reform, and agricultural sector reform, are frequently included. Policies that have been advocated include customs reform, lines of credit for small and medium-size enterprises, privatization of utilities, and regulatory reforms. Among the most commonly cited agricultural policies are land reform and investments in rural infrastructure.

Structural policy reforms can be used to address the key policy, incentive, and institutional constraints to poverty reduction. An investigation using poverty data, both quantitative and qualitative, would be expected to reveal information about the most critical barriers facing the poor (see chapter 15, “Rural Poverty”; and chapter 18, “Health, Nutrition, and Population”). The reforms that 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 effect 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 effects on the poor.

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 policymakers could examine include minimum wages; payroll taxes; rules governing hiring and firing of workers; labor standards, including hours of work, leave, occupational health and safety, and so forth; 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.

Setting priorities and sequencing reforms will also raise issues. For example, before introducing macroeconomic 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 subgroups. An assessment of tradeoffs 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 as a means to better economic opportunities and capability outcomes among the poor. Table 3 outlines the types of formal and informal arrangements available to reduce the effect of insecurity on poverty and the poor.

The macroeconomic and sectoral chapters, particularly chapter 12, “Macroeconomic Issues”; chapter 11, “Environment”; chapter 15, “Rural Poverty”; chapter 17, “Social Protection”; and chapter 18, “Health, Nutrition, and Population,” 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.

Improving governance and 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 legal and institutional reforms are needed at the central and local levels in order to ensure accountability for the use of fiscal resources and

Table 3. Possible Arrangements to Reduce the Impact of Risk

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

Source: Adapted from Holzmann and Jorgensen (1999).

to improve service delivery. The process of putting together a PRSP should include a review of potential issues in governance and public expenditure management, such as 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 (for example, nonpayment of salaries, lack of accountability of staff, and so on). Where corruption has been found to be pervasive, measures would be needed to combat this problem.

The vast majority of PRSPs to date have included measures to combat corruption; other institutional reform measures such as decentralization, civil service reform, and reforms to improve budgetary management are also commonly included.

With respect to public expenditure management, a PRSP would be expected to address any systemic problems in budget decisionmaking and processes, like unpredictability in flow of funds and failure of funds to reach frontline 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 nonsalary recurrent, capital and salary spending in the overall budget that inhibit efficiency and equity should also be addressed.

The PRSP would set out the types of steps being taken to improve transparency and ensure accountability of the line ministries and local or district governments. Community-based mechanisms for fostering transparency, 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 (see chapter 9, “Community-Driven Development”). The PRSP could set out an agenda of institutional reforms designed to bring overall budgetary procedures closer in line with best practices, drawing on, among other things, 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 is a key dimension of 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 that represent the interests of the poor. National authorities can also foster the participation of the poor and their institutions in decisionmaking processes, resulting in pro-poor policies and reforms (see chapter 7, "Participation" and chapter 10, "Gender").

However, some barriers faced by disadvantaged or excluded groups can be traced to the performance and behavior of government agencies (police, the legal system, and social services, for instance). Ownership and rights related to land are particularly important on smallholder farms (see chapter 15, "Rural Poverty"). More generally, corruption and lawlessness are likely to make it harder for the poor to access services and enforce their rights (see chapter 8, "Governance").

Adopting community-driven development approaches to projects may allow local communities to overcome institutional obstacles to empowering the poor (see chapter 9, "Community-Driven Development"). The promotion of community-driven development also has direct linkages with the processes of fiscal and administrative decentralization (see chapter 8, "Governance").

To summarize, improvements in governance and public sector management may be needed in the following areas:

- 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 in relation to the needs and priorities of the poor; and
- efforts to address critical problems inhibiting civil service performance and issues of corruption in the public service.

Appropriate sectoral policies and programs

A PRSP is expected to review key sectoral policies and programs—for example, 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 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—such as 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; or excessively high wage share 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 nonprofit) should potentially play a larger role in service delivery.

As far as possible, a PRSP should review and address cross-sectoral linkages that 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; and linkages between the health and education sectors.

The most commonly advocated policies in the PRSPs and I-PRSPs to date are expenditure increases in spending that is important for poverty reduction, including primary health and education, water and sanitation, rural roads, and other rural infrastructure. However, sectoral 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 (MTEFs) can provide guidance on how to ensure fiscal sustainability (see chapter 6, "Public Spending"). The budget plans in the PRSP would

outline how poverty reduction programs are to be financed and, in this context, 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.

Getting started on a process of strengthening or developing a PRS could begin with stocktaking of the nature and effectiveness of existing programs and major weaknesses or obstacles that inhibit the impact of poverty. This can be done on a sectoral basis, coordinated by line agencies. Both qualitative data and consultations with users and potential users or beneficiaries are needed, in addition to quantitative data (number of clients, costs, and so on).

Table 4 provides an example drawn from the case of education in Cambodia's development of its PRSP. It suggests a useful sequential approach to consideration of tackling the problem of low schooling outcomes by, in this example, raising teachers' salaries. Complementary areas were measures to increase school quality and increased budget allocations (and execution) for education.

It is important to note the emphasis on having clear priorities for public action, which in turn suggests that the strategic objectives should not be large in number. The priority actions that are adopted should be appropriate and feasible in light of the poverty analysis, the targets, their estimated costs, available resources, institutional capacities, and the effectiveness of past policies. This raises several core areas that need to be addressed in the context of developing or strengthening an effective poverty reduction strategy—that again, in turn, can be borne in mind by line ministries and central agencies responsible for pulling the strategy together. Table 5 presents an illustration, highlighting the work needed to move forward in four core areas.

Table 5 highlights the importance of having a full costing of proposed actions. Recall that a PRSP is expected to include tables summarizing the overall public expenditure program (capital and recurrent) and its allocation among key areas, which is discussed further in the next section, as well as a matrix of key policy actions and institutional reforms and target dates for their implementation. This in turn underlines the key role of line and delivery agencies in addition to core budget agencies in the process of putting together a realistic PRS.

Realistic costing and appropriate funding for major programs

This has two aspects: (1) realistic costing of all government expenditure programs, including new poverty reduction initiatives, and (2) 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' judgment about those that are likely to have the largest impact on poverty, identifying the priorities of the population and determining 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 gross domestic product) and what is expected to flow from external sources. It is important that the projected rate of growth in the baseline case be realistic. On the expenditure side, the PRSP needs to appropriately cost the programs that 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 noninflationary finance.

The baseline case for costing and financing should be founded on best judgments about the likely level of resource flows. In addition, 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 (on employment and growth) of higher expenditure on nontradable goods such as real appreciation of the exchange rate.

Table 4. Identification of Strategic Objectives and Stocktaking at the Sectoral Level: Example of Education in Cambodia

<i>Strategic objective</i>	<i>Current status</i>	<i>Weaknesses, obstacles</i>	<i>Examples of successful programs</i>	<i>Key policy and program actions under consideration</i>	<i>Key intersectoral linkages</i>	<i>Next steps</i>
Reform teacher salary scales and improve incentives to improve teacher performance	\$20 per month, compared to “living wage” of \$80 in rural areas and \$180 in urban areas	<p>Low budget allocation</p> <p>Low morale</p> <p>Low trust in teachers</p> <p>Devaluing of education</p> <p>Hard to link salary increases to performance</p> <p>Current incentives for rural resettlement not sufficient to promote change</p>	<p>Double shift and remedial programs when paid on time</p> <p>Other countries use financial or in-kind incentives to attract teachers</p> <p>UNICEF teacher credit schemes</p> <p>Programs that combine financial incentives with new responsibilities, e.g., cluster schools</p> <p>Professional development as an incentive</p> <p>Communities can recruit local contract teachers</p> <p>Private schools</p>	<p>Raise salaries by 50–100%, starting with core group of head teachers and other key teachers</p> <p>Introduce incentive pay and teacher housing</p> <p>Priority group incentives package for Ministry of Education managerial staff</p>	Who will be future employer of teachers	Negotiate with Ministry of Economy and Finance about Priority Action Plan on teachers’ incentives scheme; firm, clear presentation of case, to show efficiency gain and willingness to monitor performance

Table 5. Four Core Areas for PRSP Development and Implementation

<i>Core area</i>	<i>Current status</i>	<i>Key actions to consider</i>	<i>Next steps and timeline</i>
1. Realistic targets for key poverty outcomes and indicators to monitor progress on one- and three-year bases			
2. Full costing of proposed actions, for the next three years, for both capital and current spending			
3. Systems for monitoring and evaluation that allow regular assessment of progress and feedback into decisionmaking			
4. Participatory process: involvement of key stakeholders at different levels, including current and potential users of services, civil society organizations, and so on			

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 nondistortionary 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 World Bank and the IMF) could key off this matrix and the less 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 whether the allocation of expenditures is consistent with the strategic priorities, institutional capacities and efficiency, and realistic cost estimates. A related question is whether domestic revenue measures have been designed in light of likely distributional impacts. In terms of implementation of the strategy, it is clearly important that the capacity for fiscal management be adequate to the task.

This in turn highlights the importance of the following considerations:

- quality of cost estimates for key programs;
- comprehensiveness of budget data, that is, extent to which all programs (including externally financed projects) are included in an integrated budgetary framework;
- disaggregation of expenditure programs by sector and key programs for poverty reduction and by recurrent and investment expenditures; and
- status of the MTEF to improve the capacity to undertake pro-poor budget allocations over time.

A fundamental question is whether the strategy has an adequate and credible financing plan, including domestic borrowing and projected aid (and other external) flows. (As noted in box 1, this is among the key information that is expected to be presented in tabular form in a PRSP.) 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.

How will we know we are getting there?

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

How to strengthen existing monitoring and evaluation practices is addressed in chapter 12, “Monitoring and Evaluation” and chapter 5, “Strengthening Statistical Systems.” It also relates to the discussion of indicators in section 2.2. Some key features include the following:

- **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 strengthening the institutions and practices of expenditure management to enhance transparency and accountability in and efficiency of public spending.
- **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 policymakers, 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 long-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 the section above headed “Where Do We Want to Go?”).

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 rather 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 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.

Conclusion

This chapter has stressed that the development of a Poverty Reduction Strategy in a particular country will vary enormously depending on such factors as initial conditions and the social and political forces that shape the process of building a PRS. Nonetheless, some aspects in the process that are likely to be common across countries can be identified, particularly the following three broad dimensions:

- **Priority public actions.** PRSPs should set forth a comprehensive public sector budget that indicates allocations among expenditures. The governments should also indicate their priorities for policy reform over a several-year horizon, recognizing that the actual pace of implementation will be affected by political and institutional constraints.
- **Public expenditure management system.** The PRSPs should articulate a program to improve efficiency, transparency, and accountability in public expenditure management. Such improvements are usually essential to assure donors that developmental assistance, particularly budget support lending, will be well used.
- **Monitoring and evaluation systems.** Without significant improvements in monitoring and evaluation capacity, countries and external donors will not be able to determine the effectiveness of their policies and their assistance programs. It should, however, be recognized that this is a longer-term undertaking that will need considerable capacity building in the country.

Countries will establish their own timetables for technical policy-related work and the types of poverty diagnostics and analyses that are needed. This would include understanding the nature of poverty and its causes and ascertaining obstacles to pro-poor growth and whether key sectoral policies and programs are working to reduce poverty. It would also include a determination of what is needed to improve outcomes in the future. Many elements will be subject to continual improvements as sectoral strategies are fully developed and the results of monitoring are interpreted. Annual budgets and their execution are clearly key to implementation.

A Sourcebook for Poverty Reduction Strategies 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 two companion volumes should be considered a work in progress. Feedback on the content and presentation of the book will be used to guide future revisions.

Notes

1. The “Review of the Poverty Reduction Strategy Paper (PRSP) Approach: Early Experiences with Interim PRSPs and Full PRSPs,” available at <http://www.worldbank.org/poverty/strategies/review/earlyexp.pdf>, provides good practices for countries and partners and numerous country examples. See also “Building Poverty Reduction Strategies in Developing Countries” (World Bank, Washington, D.C., 1999) and “Poverty Reduction Strategy Papers: Operational Issues” (Joint International Monetary Fund/World Bank paper, Washington, D.C., 1999). See also www.worldbank.org/prsp for guidelines, including for Joint Staff Assessments.
2. The executive boards have instructed the staffs to *describe*, but not evaluate, the participatory process.

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