

Poverty Reduction Strategies 2005 Review: Lessons and Resources



The World Bank

PREM Poverty Reduction Group

Sustaining and accelerating poverty reduction calls for keeping a development model that places countries firmly in the center. In this regard, the PRS approach has yielded a multitude of country-specific good practices. What is needed now is to make good practice the norm and strive for even better practice.

Overview – it's not about a paper

Poverty reduction strategies (PRS) provide a framework for low-income countries to articulate their development priorities and to specify the policies, programs, and resources needed to meet their goals. The approach can also help to redefine the relationship of aid—empowering governments to set their priorities (and holding them accountable for results) and encouraging donors to provide predictable, harmonized assistance that is aligned with country priorities.

From late 1999 through June 2005, 49 countries prepared national poverty reduction strategies. Just over half of these countries are in sub-Saharan Africa; a similar proportion are heavily-indebted poor countries (HIPC). Countries have been implementing their strategies, on average, for just over two and a half years. Eleven more countries have produced interim strategies, and ten have initiated processes that could result in a PRS.

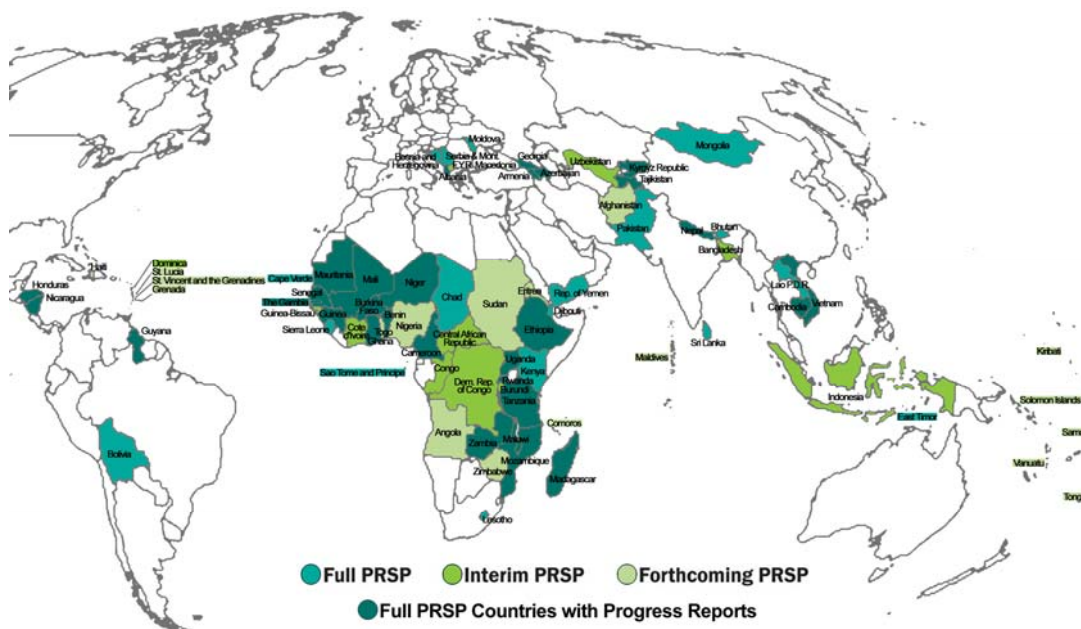
The PRS approach has heightened awareness of the need at the country level for: sound analysis to underpin policy choices and prioritization; strengthened capacity and institutions to translate that analysis into policy choices, to implement them, and to monitor their effectiveness; and changes in how donors interact to support a country-driven development approach. Not surprisingly, implementation experience has varied by country and even within countries. Encouragingly, though, there are vivid demonstrations of the potential of the country-based development model. In

general, the PRS approach has helped:

- Countries focus more squarely on poverty reduction in formulating and implementing their development strategies;
- Open up the participatory process in many countries;
- Improve public expenditure management systems and better define and protect poverty-reducing expenditures; and
- Focus more attention on monitoring poverty-related outcomes.

The PRS approach, however, needs to be viewed as a process taking place over time. *It is not about the paper.* Going forward, sustained efforts are needed by countries and by development partners in a range of areas including:

- Integrating the PRS process with existing decision-making processes, particularly the budget, and expanding the involvement of sectoral ministries, local authorities, and parliaments;
- Enhancing PRS specificity and the link between the choice of programs and policies with available evidence;
- Strengthening the monitoring and evaluation systems, including identifying intermediate indicators to monitor results;
- Identifying and sequencing interventions to address binding constraints to growth and poverty reduction, whether they be related to human or physical capacity, policies, institutions, or governance; and
- Speeding the pace at which donors translate their international commitments to align, harmonize, and increase aid into actual practice at the country level. ■



PRS Principles:

- Country-driven (with broad based participation).
- Medium- to long-term in perspective in terms of development vision and needed interventions.
- Comprehensive, multidimensional strategy for poverty reduction.
- Results-focus.

Balancing Accountabilities

To enhance the effectiveness of the country-based PRS, the approach needs to support the strengthening of domestic accountability for policies, governance, and development results.

In countries where PRSs are reasonably well-articulated and governments have assumed a strong leadership role, the PRS approach has started to bring about the intended shift in the relationship between developing countries and their external partners. In these cases, strategies tend to be better linked to budget processes, monitoring arrangements are more effective, and participatory processes have started to be institutionalized. In other cases, however, PRS formulation and implementation have focused more on donor requirements and expectations (external accountabilities), without enough attention to the accountabilities of governments to domestic constituents. The review finds several reasons for this, the applicability of which varies by country. Some of these reasons are highlighted below.

Lack of prioritization and specificity. Many PRSPs and annual progress reports (APRs) remain relatively unprioritized. This can be the result of weak linkages between the PRS and a longer-term development vision around which to prioritize, lack of analysis and capacity, unwillingness to make tough policy choices across competing demands, and/or partners continuing to encourage the inclusion of particular projects and priorities. Whatever the reason, when PRSs (and the sector strategies closely associated with them) lack operational detail. This gap is often filled with ‘derivative products’—such as performance assessment frameworks (PAFs)—which seek to make the PRS operational and around which donors can align. While in good examples, derivative products are carefully drawn from the PRS, in other cases the link is more tenuous.

Parallel processes. In many instances, PRSPs were produced with processes that ran parallel to existing planning processes. Such a situation is clearly undesirable, confusing and unsustainable. In some cases, this has contributed to weak links between the PRS and MTEFs and annual budgets. At other times, performance monitoring systems were set up in parallel to existing (albeit often weak) domestic ones. These practices have at times fragmented scarce human capacity and drawn attention away from strengthening existing processes. Disconnecting the PRS cycle from domestic political cycles can also detract from domestic accountability.

Results ... for who? While a focus on results is positive, and a key feature of the PRS approach, this drive can produce distortions. It can lead to ‘cherry-picking’ of interventions where it is easier to show results (either because data are available, causality is easier to map, or because policy, institutional or capacity constraints are not as pronounced). The need for donors to show ‘fast’ results can also create perverse incentives such as creating project implementation

units which can short-circuit building sustainable systems and focus the accountability of implementing agencies on donors rather than domestically.

Aid modalities. When aid levels are high, there are risks that this can shift the focus of attention to the providers of aid. This can be worsened if aid is provided in ways that are off budget or through ring-fenced projects, based on donor procedures, without sufficient attention to country systems. This can distort or short-circuit broader based efforts to enhance domestic accountability. It makes monitoring problematic and governments cannot plan for recurrent cost obligations or balance overall public expenditures across sectors since it is not clear what donors are actually disbursing. Vertical aid programs, such as global funds aimed at specific sectors or issues, can create the same distortions and are unlikely to produce sustainable country-level results unless they are aligned to and linked with country priorities, budgets, and systems.

(Re-) Balancing Accountabilities. Balancing domestic and external accountabilities requires that countries continue their efforts to strengthen their PRSs by (re-) integrating them with existing domestic processes, and improving their prioritization, sequencing, monitoring framework, and costing. Donors also need to respect their international commitments to provide more and better aid using modalities that reinforce, rather than undermine, domestic accountability.

Institutionalize participation. When participation is institutionalized, it can be a mechanism for encouraging strong accountability. While the nature of participation has varied depending on countries’ political structures, traditions, and institutional capacity, relative to their starting points, the PRS approach has opened space for stakeholders to engage in a national dialogue on economic policy and poverty reduction. For countries, good practices include communicating the goals



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of the participation process upfront and providing relevant information in accessible forms and in timely manners (such as simplified, local language publications in Yemen or through soap operas to report on implementation issues in Rwanda). While many countries initially focused on participation during PRS formulation, there is increasing use of participatory monitoring tools, such as public expenditure tracking surveys and citizen scorecards. Continued efforts are needed to identify stakeholder groups that are important in each country and for processes to be put in place for their engagement in the PRS process. Some countries have focused attention on identifying vulnerable groups and developing mechanisms to address their concerns, such as the Roma community in Montenegro. In other cases, such as in The Gambia, participatory poverty assessments have helped inform PRSs with the views of poor people. During implementation, there is also an opportunity to broaden the engagement of stakeholders, such as the business community, that may have been less involved in the formulation stage, as was the case with micro-, small- and medium-sized enterprises in Honduras. Development partners need to be aware of (and not bypass) participatory and representative processes and institutions that already exist.

Link to budget processes. Linking the PRS to an MTEF and the budget process encourages prioritization within a realistic budget envelope, and enhances country ownership and customization by integrating the PRS with domestic decision-making processes. Successful efforts have benefited, although to varying degrees, from high-level political commitment to budget reform and active engagement of cabinet in the PRS and MTEF process (Benin, Rwanda). In other countries, such as Burkina Faso, forging a link between the PRS and budget process was facilitated by pre-existing expenditure planning and information systems that were reasonably well developed. Developing MTEFs and sector strategies can also be mutually reinforcing. For example, well-developed sector strategies have facilitated the adoption of MTEFs (Albania, Uganda), while the preparation of sectoral MTEFs can strengthen sector strategies by grounding them in budget realities (Tanzania). Countries often take the approach of gradually strengthening the linkages between PRS and the budget/MTEF process by developing MTEFs sector by sector. Development partners need to be aware of local conditions and avoid undermining existing capacity with reform overload, pursued through multiple, disconnected initiatives. This includes paying due attention to domestic processes that are in place, strengthening those processes where needed rather than creating parallel ones, and better synchronizing with a country's (budget) calendar rather than donor-specific fiscal years.

Strengthen institutional arrangements for monitoring. For PRSs to support evidence-based policy decisions, mechanisms for evaluating the effectiveness of development programs, and for making adjustments based on implementation experience, are needed. For countries, good practice includes paying sufficient attention to the incentives for building and using PRS monitoring systems. Placing the institutional lead for PRS

monitoring systems close to the center of government or budget process, as the Kyrgyz Republic has done, can give the system greater authority. It is also useful to disseminate monitoring information and analysis across government and to the public. Cooperation with civil society partners can be helpful in presenting monitoring information to the general public in a non-technical way, as has been done in Nicaragua. Development partners need to provide sufficient coordinated support to overcome capacity and technical constraints. Setting up parallel monitoring systems should be avoided. Also, development partners need to be flexible with regard to their reporting requirements, allowing more space for governments to develop country-specific annual progress reports that build on and are integrated with domestic reporting arrangements. ■



Anvar Ilyasov/World Bank

Scaling Up

To support accelerated development efforts, the PRS approach needs to provide a platform for scaling up aid and demonstrating tangible results at the country level.

There is an inherent tension between a PRS which is “realistic” (based on existing resources and capacity) and one which supports progress towards appropriately ambitious, longer-term development goals and which can help allocate increased aid commitments towards effective purposes. One way to address this tension would be to use alternative scenarios that spell out the combination of resources, policies and other public actions that would be needed to achieve improved results. Senegal provides an early example where efforts have been made to develop scenarios based on different assumptions regarding the availability of external financing, domestic resource mobilization, and absorptive capacity. While alternative scenarios can provide a framework for scaling up assistance at the country level, few countries have used this approach, due to various factors including the need to first focus limited country capacity on strengthening PRS content and implementation; technical challenges to designing alternative scenarios; and skepticism by many countries that such efforts will yield more and better aid.

Making progress calls for strengthening analytic foundations and understanding country-specific absorptive constraints, whether they be related to macroeconomic impacts, human and physical capital, or institutional capacity, in order to develop sequenced interventions to alleviate them. Such efforts will require well-coordinated support by donors, driven by country demand, for filling analytic gaps and building capacity. And aid skepticism needs to be addressed by delivering on pledged increases in ways that are flexible and predictable.

Analytic foundations. Improving analytic foundations that facilitate better understanding of the nature of poverty and of the growth process, including their links to various public actions, will help to progressively strengthen PRSs. For countries, good practice includes regularly updating poverty profiles and extending the analysis to examine the links between growth and poverty reduction. Given the wide range of areas where analysis may be needed—including growth and sectoral diagnostics—it is important to identify high-priority gaps and fill those first. As noted above, Tanzania strengthened its PRS over time by refining sector strategies (e.g., education) and incorporating additional sectors (e.g., agriculture). Poverty and social impact analysis of proposed land reforms in Cambodia and mine closures in the Democratic Republic of Congo provide examples of focusing analysis on reforms that are likely to have a significant distributional impact. Care must also be taken that donor-supported analysis is operationally relevant so that it can be integrated into the PRS process. This calls for helping to understand better the key linkages between public policies and expenditures and faster growth, poverty reduction and accelerated progress towards the MDGs. Attention should also be paid to building capacity of government counterparts as well as local and regional research groups.

Capacity building. Capacity constraints need to be addressed for significantly scaled-up aid to contribute effectively to sustained growth and poverty reduction. Good practice includes using the PRS process to identify the most binding human and physical capital and institutional constraints, and to develop sequenced plans for alleviating them. In most countries considerably more attention is needed to using the PRS process to identify and prioritize capacity building requirements. Development partners also need to ensure that their support for capacity development is demand-driven, coordinated, and takes into account local conditions. The Public Expenditure and Financial Accountability (PEFA) program, which emphasizes country ownership and donor coordination, is an example of good practice worth supporting and extending to other areas. Involving country stakeholders in diagnostic work can also help build capacity and ownership of a reform program. ■



Eric Miller/World Bank

Operational Issues

Aligning Bank Assistance. The World Bank's Country Assistance Strategy (CAS) for IDA-eligible borrowers should be prepared following a country's development of a PRSP. The CAS should take as its starting point the country's own vision of its development goals and its strategy for achieving them, as set out in a PRSP. Since extensive public debate and consultations with a broad range of stakeholders should take place during preparation of PRSPs, CAS consultations should build on PRSP consultations, focus on borrowers' and partners' views on how IDA can best support the program of actions set out in the PRSP, and on how to increase IDA's selectivity in line with the comparative advantage of partner agencies. For IDA-eligible borrowers that have not yet completed a PRSP, the Bank's assistance program is normally updated in an Interim Strategy Note, covering a period of 12-24 months and focusing on the Bank's support to a country's preparation of its PRSP. ■

Changes to the PRS Architecture. In the fall of 2004 some modifications were made to the PRS architecture, including replacement of Joint Staff Assessments with more focused Joint Staff Advisory Note (JSAN) that emphasize links to country processes; elimination of the requirement that the concluding paragraph of this document recommend that the Fund and Bank Boards find the JSAN a satisfactory basis for concessional lending; and, in most cases, elimination of the need for the Bank and Fund Boards to discuss annual progress reports. These modifications do not change the fundamental underpinnings of the PRS approach, but rather re-emphasize certain key elements: (i) a country's PRS needs to be tailored to country characteristics and initial conditions, both in terms of content and processes; and (ii) the emphasis needs to be on improvements in analysis, policies, institutions, and processes that underpin a PRS rather than on producing papers. ■

Questions and Answers

Does a country need to write a separate PRSP if it has its own development plan?

No. Good practice calls for supporting countries in their efforts to improve their domestic planning processes, so that they incorporate key PRS principles, rather than on creating parallel, donor-focused exercises. When it is not already the case, many countries are now in a process of more fully integrating their PRS into their national plans. ■

How often do countries need to revise their PRS?

Countries should determine what timeframe makes sense for them, taking into account existing planning processes and electoral cycles. Generally, good practice indicates revising a strategy every three to five years. ■

How do the MDGs and PRSPs fit together?

With support from UNDP and other partners, countries are tailoring the MDGs to national circumstances. This process can help to crystallize the needed political commitment and accountability—both for countries themselves and for their development partners—for accelerating progress towards the MDGs. Country-driven poverty reduction strategies are the operational vehicle linking country-specific goals and targets to national budgets, policies, and development activities. In practice, PRS indicators tend to overlap significantly with the MDGs at the country level, although some targets may be more ambitious while others are less so. ■

What is country ownership?

Country ownership means that there is sufficient political support within a country to implement its developmental strategy. Country ownership requires that a government has sufficient support for the strategy among stakeholders within and outside of the government. This likely includes line ministries, parliament, subnational governments, civil society organizations, and private sector groups. The participatory processes needed to build country ownership will be unique to a country's political culture and circumstances. Country ownership does not require full consensus within a country. It means that a government can mobilize and sustain sufficient political support to adopt and implement the desired programs and policies even in the presence of some opposition. ■

Does country ownership mean that the World Bank should support everything proposed in a PRSP?

No. Ownership does not mean that the Bank or other donors must support all policies and programs, nor does disagreement with some policies mean disagreement with an entire strategy. There can be legitimate differences in view. However, if the Bank does disagree with a particular approach, the Bank needs to be clear about its specific concerns and for these views to be grounded by analysis. ■

Does the World Bank support participatory processes?

Yes, it is in fact good practice for the World Bank to encourage and support countries as they develop and implement participatory processes, for PRS formulation, implementation, and monitoring. However, the Boards of the Bank and the Fund have noted that participatory processes are designed and managed by government and that staff knowledge of the participatory process and its impacts will often be incomplete. As such, they have instructed staff to describe, but not to evaluate, the participatory process. ■

What is PSIA?

Poverty and Social Impact Analysis (PSIA) is the analysis of the distributional impact of policy reforms on the well-being or welfare of different stakeholder groups, with particular focus on the poor and vulnerable. PSIA is a systematic analytic approach, not a separate product. It starts with the ex-ante analysis of expected poverty and social impacts of policy reforms, with a view to helping to design the reforms. PSIA advocates monitoring results during implementation and, where possible, evaluating ex-post the poverty and social impacts of reforms. ■

Resources

Various partners provide a wide range of resources available to support the PRS approach. Some of the material available through the World Bank webpage include the following:

- **PRSP webpage.** The PRS webpage at www.worldbank.org/prsp provides a variety of material and links, including to country documents, the PRS Sourcebook, policy papers and implementation reviews, staff guidelines, training material, and information on the PRS Trust Fund.
- **PRS implementation brown bag series.** This brown bag series explores challenges that arise in translating poverty reduction strategies into improved development outcomes. It emphasizes the sharing of country experiences and good practice, with a special focus on institutional issues, pro-poor spending, and capacity building. We welcome suggestions for specific topics that are of interest: www.worldbank.org/prsis.
- **Poverty analysis.** Poverty analysis is one of the principle steps in formulating a poverty reduction strategy. For information on the different dimensions of poverty and its measurement; different approaches to the analysis of poverty, inequality, vulnerability, and their determinants; poverty mapping see the poverty analysis website: www.worldbank.org/povertyanalysis.
- **PSIA.** Poverty and Social Impact Analysis (PSIA) is the analysis of the distributional impact of policy reforms on the well-being or welfare of different stakeholder groups, with particular focus on the poor and vulnerable. PSIA has an important role in the elaboration and implementation of poverty reduction strategies by promoting evidence-based policy choices and fostering debate on policy reform options. The PSIA website provides a forum to share tools and disseminate experience: www.worldbank.org/psia.
- **Poverty monitoring.** Poverty monitoring involves tracking progress over time in achieving results in terms of reduction in poverty and is an essential component of any poverty reduction strategy. The poverty monitoring website provides a range of resources: www.worldbank.org/povertymonitoring.
- **Impact evaluation.** An impact evaluation assesses the changes in the well-being of individuals that can be attributed to a particular project, program or policy. The impact evaluation website aims at disseminating information and providing resources for people and organizations working to assess and improve the effectiveness of interventions aimed at reducing poverty: www.worldbank.org/impactevaluation.
- **PRS and the budget.** For information on the role and functioning of budget systems for PRS implementation and reviews good practices of where PRS implementation has been facilitated through alignment with the budget process, see the Public Spending for Poverty Reduction website at www.worldbank.org/poverty-pubspending.
- **Pro-poor growth and inequality.** An introduction on how growth and changes in inequality together affect poverty reduction, as well as some of the necessary tools to better analyze the link between growth, are available on the pro-poor growth and inequality webpage: www.worldbank.org/propoorgrowth.

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