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On the
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**BUILDING POVERTY REDUCTION STRATEGIES
IN DEVELOPING COUNTRIES**

Attached for the September 27, 1999 meeting of the Development Committee is a background paper prepared by staffs of the World Bank on Building Poverty Reduction Strategies in Developing Countries for consideration under item 1.A of the Revised Provisional Agenda.

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Building Poverty Reduction Strategies in Developing Countries

September 20, 1999

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I. PREFACE

1. This paper sets out a framework that could be used by national authorities to strengthen the impact of public action on poverty. It also sketches the implications for the Bank of moving to such an approach. The essence of the framework is to place the emphasis on results in poverty reduction and to systematically set priorities for public action according to the expected impact on poverty outcomes, based on a comprehensive understanding of poverty determinants in individual countries.
2. The paper summarizes work in progress in the Bank and is based on the experience of many countries, as well as on cross-country analytical work and on emerging good practice in development assistance. In some countries applying such a framework will represent an intensification of efforts already underway rather than a departure from current approaches. In others it will lead to significant changes in the way that governments and donors identify priorities, allocate resources and reassess strategies.
3. The framework is designed to promote progress towards the International Development Goals (IDGs) for reducing poverty in its various dimensions, on a country basis.¹ It is about practical operationalization of the Comprehensive Development Framework (CDF) in a way that would systematically link diagnosis and public actions to poverty outcomes. The framework's focus on poverty outcomes, and on the link between policies and outcomes, also underpins the proposed tri-partite (government/Bank/IMF) Poverty Reduction Strategy Paper (PRSP) and provides the basis for ensuring that HIPC debt relief is an integral part of poverty reduction efforts.²
4. The key elements of the enhanced framework are:
 - **A comprehensive understanding of poverty and its determinants.** Understanding who and where the poor are and what prevents them from coming out of poverty is at the core of an effective strategy.
 - **Choosing public actions that have the highest poverty impact.** A solid understanding of poverty allows prioritization of potential public interventions according to expected poverty impact. Social sector programs will generally be significant components of the effort, but actions to promote growth and capacity building, and in other sectors which expand incomes of the poor – like rural development, local infrastructure, private sector development for jobs, action to reduce insecurity—will usually be of equal importance in an effective program of action to tackle poverty in all its dimensions.

¹ The goals for 2015 include reducing by half the proportion of people living in extreme poverty; reducing by two-thirds the mortality rates for infants and children under five, and by three-quarters the mortality rates for mothers; and achieving universal primary education.

² See IMF/IDA (1999) *HIPC Initiative—Strengthening the Link between Debt Relief and Poverty Reduction*.

➤ **Outcome indicators which are set and monitored using participatory processes.**

Identification of poverty outcome targets is key to program formulation and a crucial mechanism for regular assessment of program design and implementation. The IDGs provide a useful basis to select country specific targets. Broad participation is needed to ensure that the most relevant targets are selected and that the regular monitoring of outcome indicators has consequences.

5. This paper is part of a broader effort to enhance the impact of the Bank's work on poverty reduction to promote sustainable economic growth and to ensure that its benefits are reaching the poor. It is nested within the approach and concepts encapsulated in the CDF. Other key elements of this effort include the preparation of the 2000/01 World Development Report on Poverty; the work to develop principles of good social practice, including in the context of crises³; and the proposals now being reviewed to strengthen the links between the HIPC Debt Initiative and poverty and social development, including the adoption of PRSPs. This work takes place in the context of continuing evolution in the development paradigm over the past decade which has, among other things, increased the emphasis on transparency, participation and good governance in country policy-making processes, as well as increased emphasis on poverty outcomes. These efforts also set the backdrop for a continuing internal effort to upgrade the policies and instruments that the Bank can deploy to assist countries in their efforts to meet the challenge of reducing poverty.

6. These efforts are motivated by a growing sense that despite important progress in many areas, the challenge of poverty remains daunting and calls for urgent and innovative thinking to enhance the impact of our collective efforts. Faster progress will also be needed for the realization of 2015 International Development Goals not only in the aggregate but for individual countries. As one of the partners in such effort, the Bank is determined to enhance the effectiveness of its support to countries committed to the goal of poverty reduction.

³ See the "Principles of Good Social Policy" and "Managing the Social Dimensions of Crises: Good Practices in Social Policy", discussed by Executive Directors in April and September, 1999 respectively.

II. Background and Motivation

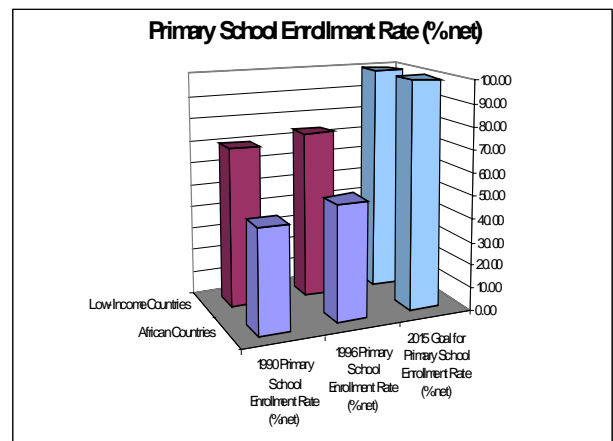
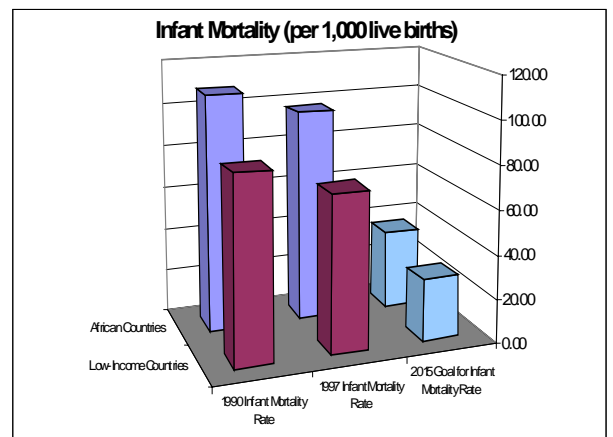
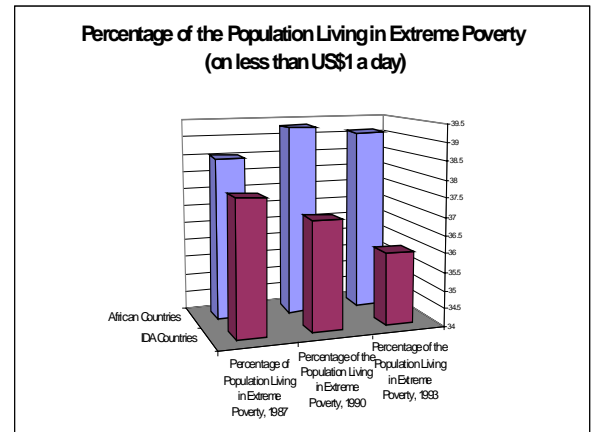
7. Poverty is multi-dimensional, extending from low levels of poor health and lack of education, and to other “non-material” dimensions of well-being, including gender gaps, insecurity, powerlessness and social exclusion. In pre-crisis East Asia, broad based growth had made serious inroads on poverty. Evidence suggests that outside this region, progress towards poverty reduction has been disappointing with the numbers of poor rising in many parts of the world. Particularly disappointing have been the results for low-income countries in Sub-Saharan Africa, where the absolute numbers of poor continue to rise and social indicators remain below those of other low-income countries (Figures 1-3).

8. As a result, the pace of improvement in poverty indicators since 1990 has been too slow to meet international development goals of 2015, which call for reduction by half in the proportion of people in extreme poverty. Using the estimate based on the number of people living on under a dollar a day (in 1985 PPP dollars), the number of poor is expected to rise from 1.2 billion in 1987 to 1.5 billion by 2000.

9. While progress on health and education indicators has generally continued in low-income countries, countries severely affected by AIDS have seen all the gains in life expectancy since the Second World War wiped out. Moreover, progress toward universal primary education has stalled, or even reversed in many African countries over the past decade: this is true both in terms of rates of enrolment as well as schooling quality.⁴

10. The factors underlying the stagnation and, in some cases, worsening picture of poverty vary across countries. One important reason has been the increasing number of countries that have been afflicted by armed conflict. As many as half a billion people are living in conditions of civil war and social unrest. Another more recent phenomenon has been the impact

Figures 1-3: Poverty Indicators in IDA and African Countries



⁴ Oxfam (1999) Education Now. Breaking the Cycle of Poverty.

of the international financial crisis, which has both set back improvements in poverty in East Asia and had a spillover effect on the incomes of other low-income countries through lower commodity prices and a slowdown in international trade.

11. More broadly, slow economic growth remains a major cause of poverty in many low-income countries. In countries with massive poverty (like Bangladesh and India, as well as much of Africa), broadly based growth is integral to poverty reduction efforts. China's success in making major inroads on poverty in the 1990s confirms how high levels of growth can fuel development and alleviate poverty. However the record shows that a focus on growth alone is not enough. In a number of African countries, even when GDP growth rates have exceeded population growth, there have not been the commensurate improvements in poverty outcomes. For these countries, poverty persists in part because the benefits of growth are distributed unevenly and because poor governance diminishes growth's potential impact on poverty. Similarly, in Europe and Central Asia, recent analysis has shown that the poverty payoff to growth will be high – but only if the distribution of income and the quality of governance are improved. An important theme emerging from work on the forthcoming WDR is that it is not possible to separate issues of achieving growth from the overall pattern of social progress and distribution: economic opportunities for the poor will only expand where there are improvements along the complementary dimensions of increased empowerment and security of the poor.

12. The Bank has responded to the challenge of poverty reduction through a greater emphasis on poverty in country assistance strategies and through lending programs focused on human capital development. An important element of this effort has been to improve the knowledge base on the nature and extent of poverty in member countries: thus, poverty assessments have been completed for most active countries. Adjustment operations have also increasingly focused on poverty and the social sectors—for example, in seeking to ensure adequate budget allocations. Over the past decade, the share of Bank lending going to human capital development has risen. IDA is now the largest external financier for human capital development in low-income countries, and disbursements have increased from \$500 million per year a decade ago to about \$2 billion per year in FY98-99.

13. Despite these substantial achievements, more can be done to increase the impact of the Bank's work on poverty reduction. There has been continuing progress in strengthening the poverty focus of country strategies, as reflected in CAS documents. Areas for further improvement include the need to tighten the links between Bank programs and poverty reduction on a more systematic basis, so as to guide selectivity of intervention. There is also a need to build in more systematic evaluation of the poverty impact of country programs and projects, including feedback into future design.⁵ Efforts are also underway to move beyond the first generation of poverty assessments by drawing more on qualitative and participatory techniques and by linking them more effectively to policy analysis and the formulation of country strategy.

⁵ See Subbarao et al (1999) and OED (forthcoming) about the effectiveness of Bank implementation of the 1990 WDR Poverty Strategy.

III. An Enhanced Framework for Poverty Reduction

14. Most developing countries already try to prioritize their public expenditures and policy actions according to the impact on development and poverty alleviation. Many also have stated poverty reduction plans. Although these plans sometimes tend to be general and declaratory in nature, there are also many examples of good practice. For instance, Uganda and Mozambique, have come closer to a comprehensive approach to poverty reduction, based on National Poverty Plans, and the integration or planned integration of the poverty orientation into the medium term expenditure framework and budget processes. Bolivia has gone a long way to setting poverty outcome related goals via a consultative process and linking these to public actions and a systematic process of monitoring and evaluation. The experience in these cases can be built upon in countries under the approach proposed below, which also draws upon external reviews of the poverty reduction impact of development assistance.⁶

15. The framework is captured in the three key elements that were set out in the preface: first, a comprehensive understanding of poverty and its determinants; second, choosing public actions that have the highest poverty impact; and third, participatory setting of targets and monitoring of outcome indicators. This provides a basis for systematically reviewing tradeoffs among different types of action and use of limited public resources (fiscal and institutional capacity). Such an approach is both holistic and long term, elements that are also central to the CDF.⁷ In some countries, application of the framework will merely represent an intensification of efforts already underway; in others, it will replace approaches that are partial in the sense that the focus is on specific sectors (typically education and health), or projects, without an overall country framework that would ground proposed public actions on a consistent basis. Clearly the scale of the challenge is largest in those (mainly low income) countries which are furthest from the 2015 International Development Goals.

3.1 Understanding the nature and determinants of poverty

16. A comprehensive understanding of poverty and its determinants in each country is fundamental to determining appropriate public actions. Policy formulation should start from a disaggregated understanding of who the poor are, where they live, and their source of livelihoods. This enables an exploration of poverty determinants, which includes but is not limited to social sectors. Each country could work through and select what is important in the particular case. For countries with more data and institutional capacity, as well as past scrutiny, this analysis could go further (Uganda, Ghana and Cote d'Ivoire) than in others, where it may remain more rudimentary and focused on the incidence and profile of poverty.

17. The importance of *country level* understanding about the profile and determinants of poverty is highlighted by the enormous variation in poverty outcomes among countries with

⁶ See, for example, Oxfam and UNICEF (1999) and recent papers published under the auspices of the Special Program for Africa (SPA) (Greeley and Devereaux, 1999); and reviews of bilateral programs, like Shepherd, A. (1999) *Lessons from the evaluation of a bi-lateral aid program: Evaluation of DFID support to Poverty Reduction*.

⁷ See Wolfensohn (1999) The Comprehensive Development Framework; Stiglitz (1999) Prebisch Lecture.

similar levels of GDP (in PPP terms). For example, the share of poor children who are underweight varies from about 15 to more than 45 percent, for countries with GNP per capita in PPP terms of \$2000.⁸

18. The characteristics and determinants of poverty are fairly well understood in many countries. Yet the links between alternative public interventions and the impact on poverty and inequality generally are not clearly articulated. An important implication of this operational framework is to make existing assumptions explicit, and to show which among the potential factors are most significant in the particular country case. Country-level diagnosis and the identification of priorities is essential.

19. Part of the challenge is to move from sectoral based analysis and interventions to an overall framework centered around poverty outcomes. This is made difficult in part by compartmentalization of the sectoral ministries, which is often reinforced by sectoral biases within development agencies, including in the World Bank. Nonetheless, there have been encouraging steps in the direction of broad based approaches.

3.2 Choosing public actions with the highest poverty impact.

20. Given the budget constraints that face any government, and particularly the limited revenue available in low-income countries, there is a need to prioritize among alternative interventions and choose those which, at the margin, have the largest poverty impact. Understanding the causal mechanisms underlying poverty outcomes is key to determining appropriate public action(s). The multiplicity of causal factors means that a variety of measures can be contemplated to improve a particular outcome, involving action on either a single cause or a set of causes. These will have different costs, and are likely to have different knock-on effects on other outcomes.

21. One way to articulate the links between poverty outcomes on the one hand, and levers for public actions on the other, is shown in simplified schematic form in Table 1. It is important to emphasize multiple paths of causation and the necessity for an integrated view, across areas of public action and areas of outcomes. For example, good governance is critical to empowerment, but is clearly equally critical to the improvements in outcomes in poverty, capabilities and security. The key dimensions of outcomes mirror the themes of the forthcoming WDR, although here, in order to highlight the direct operational relevance of the approach, opportunities and capabilities are distinguished in order to correspond to areas of public action: reducing barriers to access and improving service delivery. One universal prescription at the country level which underpins each of these areas of actions is intimately linked to good governance and the need to develop and nurture institutions which are accountable, flexible and responsive to needs of the poor.

22. ***Reducing income poverty by increasing market opportunities for the poor.*** Broad-based economic growth is critical for poverty reduction. The policies needed to enable broad based

⁸ Wagstaff, A. (1999) *Inequalities in child mortality in the developing world: How large are they? How can they be reduced?* The World Bank, HNP mimeo.

growth will generally include measures to ensure macroeconomic stability, appropriate fiscal and exchange rate policies and financial sector development. The levers for public action under this heading also need to address the barriers to access that restrict market opportunities of the poor. This will require knowledge about the constraints that are most relevant to the poor, and about where the poor work (for example, which types of crops the poor grow). The latter is important to assess the effect of policy changes and economic developments – for example, while overall benefits accrued to coffee growing economies due to price movements in the mid 1990s, the impact on poverty varied. In Ecuador, only 2 percent of the poor in the Sierra, the region with the highest concentration of poverty, cultivate coffee; whereas there was a broad impact on Ugandan farm households engaged in cash cropping which in turn accounted for half of the fall in the national poverty rate between 1992 and 1997.

23. In addition to sustained growth, measures designed specifically to increase access to economic opportunities for poor groups will likely be needed in many low-income countries. This will be particularly important in countries with high levels of income inequality. Among the interventions for consideration are pricing policies, rural infrastructure, the distribution of land, the role of education and micro-finance.

24. ***Improving capabilities and delivery of essential services.*** The determinants of health and education outcomes are reasonably well-understood, although there is less certainty about the conditions under which public actions will improve poverty outcomes.

25. It is clear that multi-sectoral approaches are key to improving poverty outcomes. For example child mortality is affected by the level of income (national and household), access to safe water and sanitation, education (especially of women) and some categories of health interventions (e.g. immunization). The same is true for child malnutrition. In Pakistan, for example, despite the relatively high level of calorie availability and rising per capita incomes, the proportion of malnourished children has remained high.⁹ This has been traced to the prevalence of illness and diarrhea.

⁹ Alderman, H. and M. Garcia (1994) *Food security and health security: explaining the levels of nutritional status in Pakistan*, Economic Development and Cultural Change, 44.

Table 1: Poverty Outcomes, Determinants, and Levers for Public Action

Outcomes	Examples of Determinants	Levers for Public Action
Economic Opportunities		
Private consumption per capita	(i) Income and investment: Macroeconomic stability; private investment as a share of GDP; agricultural productivity and yields;	Macro progress and sustainability: monetary, fiscal and exchange rate policy
Poverty incidence, depth and severity	quality of governance; sectoral composition and patterns of growth; access to risk management mechanisms, including micro-finance; health status and population growth.	Good governance: including rule of law, public sector management & performance, predictable & open policy making etc.
Inequality generally, and also among groups – regional, ethnic and gender	(ii) Distribution of assets: distribution of income; distribution of assets – e.g. land; human capital – level and distribution and quality of education;	Private investment policies Micro-finance Competition policies Labor market interventions Lifting trade barriers against pro-poor sectors Financial sector development
	(iii) Factors impeding access: infrastructure – e.g. paved roads and road density index; gender-based impediments to access to land, credit; weak and corrupt governance, biased against the poor.	Pricing policies Urban development Rural infrastructure Land tenure and redistribution Expansion of quality education Spending on and targeting of safety net programs, including nutrition
Capabilities		
Literacy	Quality of schooling; household poverty rates; parental education; public spending on primary education; private costs of education; early childhood development; outreach to excluded groups; facilities to facilitate girls' enrolment.	Appropriate governance and accountability of service providers Spending/policies on primary education Quality monitoring in schools Targeted subsidies to deter child labor Action to reduce gender discrimination Outreach activities
Infant Mortality Rate	Mother's education; access to safe water and sanitation; breastfeeding; access to health services including immunisation; household poverty rates; share of births' attended	Immunization AIDS programs Communication strategies Promoting access to safe drinking water and 'private' toilets Air pollution in rural and urban areas Spending/policies on curative health for the poor
Under-five Mortality Rate	HIV infection rates	
Maternal Mortality Ratio		
Underweight children under-five	Household poverty rates; mother's nutritional education; intra-household resource allocation practices	Coverage of ante/post natal care Nutrition programs (feeding and mothers' education)
Empowerment		
Participation in decision making -	Ability to monitor and influence public resource allocations and service delivery Social cohesion and inequality	Good governance: transparency, accountability Participatory processes Effective decentralization Improved budget management Information and public dialogue Anti corruption efforts Actions on gender discrimination Fair judicial system
Security		
Security against economic shocks and personal violence	External economic and climactic shocks; crop failure; macro-instability... Household level shocks, like accidents, disablement and debilitating illnesses.	Access to risk management mechanisms, e.g. micro-credit and safety net programs (e.g. public works). Access to emergency curative care Actions to reduce violence (e.g. community policing) Measures to mitigate environment disaster risks (e.g. better designed infrastructure)

26. Community services like primary health care services, village water supply, and public drainage systems are critical in this respect; not only the mere physical presence, but also the quality of these services, and therefore the institutional design of delivery mechanisms as well as funding.

27. ***Increasing empowerment and participation.*** Empowerment is a key outcome, as well as an instrument for improving poverty outcomes more generally, through better diagnosis of priorities and causes, and monitoring. Levers for public action to improve governance include strengthened governmental processes, like budgetary management backed by audits, as well as broader based accountability. A recent example of the latter comes from Bolivia, with *Comités de Vigilancia* that are elected bodies with rights to information and appeal on use of local funds.

28. The quality of governance and overall social functioning can influence both growth and poverty. This has been the focus of Bank support in a number of countries – in Guinea, for example, in support for rural service delivery through setting performance indicators, which draw on user satisfaction benchmarks, and expenditure tracking to enhance accountability and transparency (as in Uganda). Recent empirical evidence for a large sample of countries reveals a strong positive causal relationship from improved governance to better development outcomes – in particular, growth in per capita incomes, infant mortality and adult literacy.¹⁰ The dimensions of governance that matter include voice and accountability (including the nature of the political process and civil liberties); political instability and violence; and perceptions of corruption.

29. Measures to enhance empowerment include programs to promote girls' education and combat discrimination. Other avenues involve: working with the poor directly, and with organizations of the poor; supporting governmental reforms to strengthen links to such organizations, and make them more responsive; and finally, measures to tackle exclusionary processes, which are linked to the area of security covered below.

30. ***Security and reducing vulnerability.*** Lack of security is manifested in variability of income levels. The sources of insecurity range from the global and macro levels – including natural disasters and climate – through to idiosyncratic risks –especially ill-health or death in the family. The poor respond to these risks with a series of ingenious market and non-market mechanisms, but these are not enough, and these risks lead to decisions and outcomes which adversely affect their development prospects.¹¹

31. Public actions can reduce the downside risks faced by the poor. Reducing vulnerability to national, community and individual shocks, especially those with irreversible effects for the poor, is the objective. Assets, such as land, livestock or savings, are a central part of the risk management strategy of the poor. Helping to build up these assets is a key policy in providing security to the poor. Country based diagnosis is again needed to identify appropriate levers of public action.

¹⁰ Kaufman, D., A. Kraay and P. Zoido-Lobaton (1999) *Governance Matters*. World Bank, May.

¹¹ See WDR 2000/1 outline: <http://www.worldbank.org/poverty/wdrpoverty>

3.3 Setting and Monitoring Outcome Indicators

32. *The role of outcome indicators.* An integral part of this framework is country-level targets – outcomes and proxy indicators. The targets should provide *critical* and *direct* indications on the progress being made toward poverty reduction in the country. Outcome indicators are important because of the feedback they can provide on the actual impact on the ground of policies and programs intended to help reduce poverty. Civil society must play a crucial role in the process of selecting and monitoring indicators.

33. The choice of indicators to track progress in poverty outcomes will depend on an interpretation of the processes of poverty reduction at work in a country, using both domestic and international experience as a guide. The IDG provide an appropriate starting point and useful overall long-term context.¹² It is always recommended that a national poverty line (or better, a range of lines, and measures that capture the depth and severity of poverty) be used for country analysis, goals and monitoring. Which outcome indicators of health and education are important and pertinent will obviously vary across countries. For example, some low-income countries have performed well in raising primary enrolments, but poorly with respect to quality of learning (Nicaragua being just one example). Finally, for other dimensions of well-being, especially on insecurity and powerlessness, there are no international measures. However, efforts should be made to design country measures for these—for example using the results of participatory processes and qualitative monitoring—wherever this is judged to be important (which is expected to be often).

34. The development and setting of poverty reduction targets also need to be explicitly linked to resource constraints. Fiscal targets need not be immutable, however, and poverty reduction goals themselves should be taken into account in establishing the macro policy framework. In general there would be an iterative process that ensured consistency between aggregate fiscal targets, spending composition and poverty targets; a process involving the government, the IMF and Bank, as well as other agents. In Uganda, goals were set by government in the context of budget preparation to ensure that sufficient revenues would be available.

35. Where appropriate and where feasible, the data should indicate, in addition to population averages, *distributions* within countries across socio-economic groups. Two key findings about inequalities in health outcomes are (i) countries with similar averages can have different degrees of health inequalities (so the poor fare worse in one country than another, even though the average person fares the same); and (ii) countries can see improvements in average health outcomes over time but worsening inequalities (to such an extent that health outcomes at the bottom of the distribution actually deteriorate in some cases).¹³ This confirms the importance of tracking health on a disaggregated basis.

36. As important as the choice of indicator is the way in which indicators are used. It is not proposed that external or domestic support should be blindly linked to achieving, or failing to achieve, a set of outcomes—or proxy indicators of outcomes. A society following a poverty-

¹² The International Development Goals are generally set with respect to the year 2015.

¹³ Wagstaff, A. (1999) op cit.

oriented approach may nonetheless fail to reap gains in living conditions for the poor as expected. This may be traced to a number of reasons including unexpected external conditions, a misinterpretation of the nature of the causal relationships assumed in the public action, or a failure in undertaking public action on the part of the agents (as in the extreme case of corruption). For example, recent experience in Honduras and Nicaragua suggests that there has been no improvement and probably a deterioration in nutritional outcomes, despite good economic growth, some improvement in mortality rates and a number of nutrition programs, and further investigation is being undertaken to explain why this is the case.

37. *Participatory setting of targets and their monitoring.* Broad based country ownership of the process of diagnosis and setting targets will be crucial, not least because ownership of the program by the borrower has been found to be a significant determinant of effectiveness of external financing.¹⁴ Working with governments to broaden participation also increases the likelihood that the indicators and targets chosen reflect the views of those most directly affected by poverty and that the experience of NGOs and others in service delivery is factored into the process.

38. Varying degrees of participatory involvement in this area already take place in many low-income countries. Bolivia is one recent example of extensive consultation. Another is in Guinea, where a National Strategic Vision was developed through a stakeholders' consultation exercise, which engaged citizens from across the country to discuss key questions: Where are we now? Where do we want to go? How do we get there? And, how do we know we are getting there? In Benin, there has been a national workshop and ongoing work by several ministries to develop indicators related to sectoral goals, linked to poverty objectives.

39. Community participation alone is no guarantee of pro-poor policies, however. Participatory approaches will have to be carefully tailored to ensure that prejudices, stigma and so forth do not simply replicate at community level the problems seen at the central government level. In rural Africa, for instance, the Bank has sponsored literally thousands of village level community consultations around the continent. When asked to list their priorities—even in the midst of a rampaging epidemic—communities have never mentioned AIDS. Only when prompted are they willing to address the subject, and suggest responses. But until prompted, they fear that raising the issue would mark them as HIV-positive. This potential limitation of participatory approaches is being increasingly recognized, and approaches are being designed to take account of it.

¹⁴ Collier and Dollar (1998) *Aid Effectiveness: What Works, What Doesn't and Why*. The World Bank.

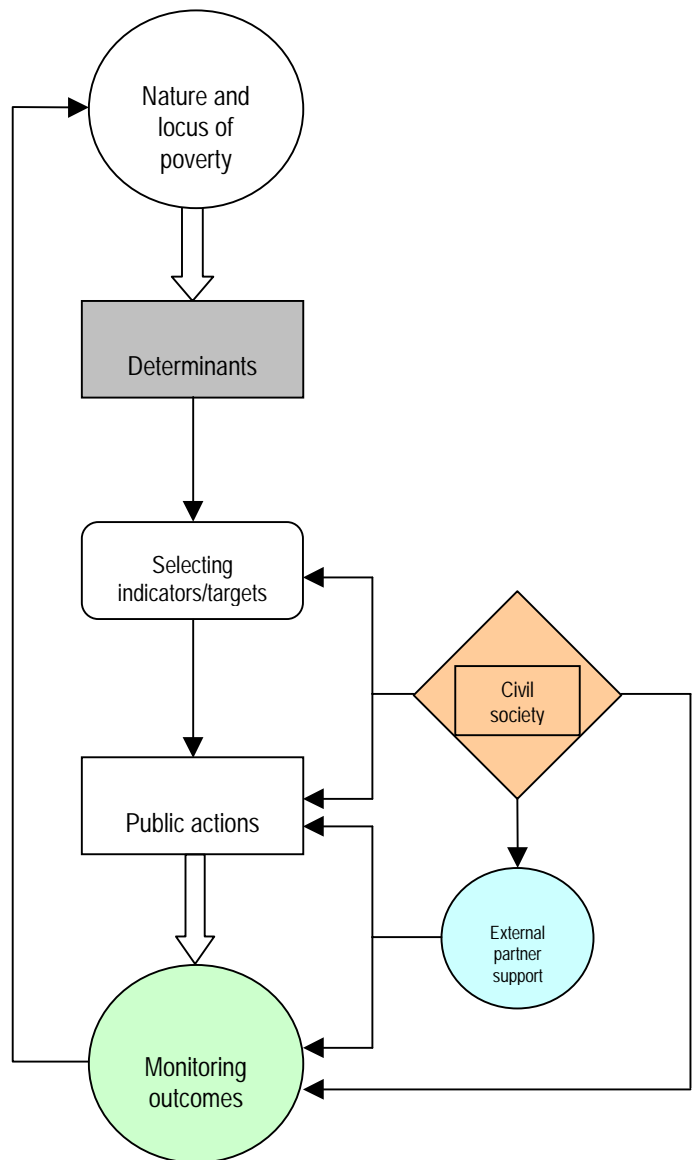
40. NGO involvement in monitoring can take various forms. Often local NGOs can monitor the reliability of information collected, and undertake some independent verification of reported results. However, it is crucial that NGOs are genuinely representative of poor communities, and often more direct structures of community engagement maybe appropriate (as for example, is being implemented in Bolivia with the legal recognition and enhanced role of local, community level organizations). International NGOs could provide support in doing this type of work, which is not dissimilar to the type of baseline surveys of social conditions and follow-up which are often used in project contexts. In some cases a larger NGO role could be very useful – as was the recent case in Indonesia, for example.

IV. Operational Implications for the Bank

41. Building on the progress achieved to date (notably since the 1990 WDR), for IDA, and more generally for the Bank, the framework provides a basis for selectivity in the choice of lending and non-lending programs to systematically reflect the objective of poverty reduction. Much progress has been made in making poverty reduction central to Bank activities, but more is needed to focus all Bank activities sharply on their poverty impact.

42. An iterative approach is at the core of this approach (see Figure 4). Starting with an understanding of the nature and locus of poverty in the country, an analysis of the determinants and constraints affecting poverty outcomes is undertaken and key outcome indicators are chosen. This is the basis upon which alternative public actions can be evaluated against the likely impact on poverty reduction. The approach is dynamic in the sense that the results of outcome monitoring are fed back into the analysis of determinants and into the ongoing prioritization and design of public actions.

Figure 4. Focusing on Outcomes to Enhance Poverty Reduction Impact



43. Monitoring and analysis of poverty outcomes and proxy indicators over time enable governments and external partners (including NGOs and international financial institutions), to track progress, and to make comparisons with other countries. Some tracking of outcome indicators is already being presented in CASs, for example. Of the 24 CASs in FY99, for example, nine included monitorable poverty outcome indicators.

44. The extent to which existing Bank programs need to change to reflect this approach will vary across countries. Some have already gone a long way in implementing an outcomes-based approach, and the issue may be one of pushing this approach more systematically across the country program or across linking public action, causes and outcomes. Uganda and Bolivia are good examples, and a concerted push in the South Asian region has already been launched.

45. In some cases, the Bank is able to count on strong government ownership of an existing program of action based on poverty goals. In Ethiopia for example, the Government's strategy already gives priority to developing the rural economy, and targeting health, education and road investments towards under-served rural areas, and the Bank and other partners are committed to supporting this program. In this type of case, the framework may be useful for monitoring and evaluation of results.

46. In other country cases, there may be an opportunity and need for a more general review of Bank lending priorities and activities, and to use the framework to rethink overall program design. For this to be effective, it has to be implemented in support of poverty reduction strategies adopted by the countries themselves and in concert with other donors, including the IMF. The tri-partite (Government, Bank, Fund) PRSP will provide an important vehicle for implementation of the framework.

47. This section highlights the operational implications of the framework across several key areas of Bank activity, namely helping countries design poverty reduction strategies; information and diagnostics; the design of country assistance strategies; and in implementation of the strategy and associated lending program.

4.1 Helping Countries Design Poverty Reduction Strategies

48. Implementation of this framework requires substantial capacity in (i) the analysis of poverty; (ii) the selection of monitorable indicators; (iii) the design of programs; (iv) the monitoring of indicators; and (v) facilitating widespread consultation and participation on all of the above. Countries are at different levels regarding their capacity to effectively address these requirements. Many of the poorer countries have very low institutional capacity, and building capacity in each of these areas will be fundamental to the effective design of poverty reduction strategies.

49. External assistance in these areas could help move the process forward, and the Bank could play an important role in providing technical support and advice to help countries to design poverty reduction strategies. The CDF would provide a useful overall framework to do this in the pilot countries. In doing so, external partners would build on local processes so as to ensure

continued country ownership. However there is a potential tradeoff between external assistance to expedite the process and ultimate ownership.

50. Where good information on the nature and determinants of poverty, and on the impact of public action in various sectors is not available, or where the mechanisms for data collection and analysis are not institutionalized, building capacity is obviously important. The World Bank and other external partners have provided substantial assistance in this area in the past. Initiatives currently underway include work on living standards measurement surveys, priority and integrated surveys and the MECOVI initiative in the Latin American and Caribbean region (jointly with the Inter-American Development Bank and ECLAC).

51. The weakness of national capacity to implement household surveys and to undertake analysis has a bearing on the timeframe for establishing causal links, choosing indicators, and monitoring. (For example in Mozambique it has taken two years since the national household survey to get results, and lags of this nature are not uncommon.) Once again, external technical assistance can help in this process, although care will need to be taken not to subvert local ownership of each of these steps. The development of simpler surveying techniques in line with national capacity, of the type recently being implemented in Ghana for example, would be an integral part of this framework, and where the Bank could provide support.

52. Participation is an important part of the development of national poverty reduction strategies with governments. This should not be limited to consultation with handful of NGOs, but should involve a range of stakeholders, including poor women and men, with documentation of priorities and recommendations of different groups, whether or not these are adopted. The Bank has accumulated extensive experience in carrying out and facilitating participatory processes. Where appropriate, Bank support could be provided to support the consultations in countries developing poverty reduction strategies. A number of external partners, including international NGOs would also be well-placed to provide this type of assistance.

53. It is clear that time and resources are needed, both at the country level, and on the part of external partners like the Bank, to help countries move through all of the above steps, in an iterative and also participatory fashion. Bank operational timetables will have to be consistent with the more important need to have national ownership of poverty strategies that have been prepared using open and transparent processes.

4.2 Information, Analysis and Diagnostics

54. Working through a country-specific version of Table 1 requires information about the nature of poverty and its determinants. For some countries and sectors much information is already available. For example, extensive analysis of the nature and determinants of poverty has been conducted for countries such as Cote d'Ivoire, Ghana, and Uganda based on survey data collected over time. Similarly, much analysis has been conducted at the sectoral level on, for example, the determinants of malnutrition. For other countries and sectors there are gaps in our

knowledge about causes of poverty outcomes; for example, much remains to be understood about the relationship between natural resource degradation and poverty.¹⁵

55. Generally, a good starting point for information on poverty are recent poverty assessments and poverty studies (whether conducted by the Bank, country researchers or other donors). Good poverty assessments provide information on the profile of poverty, including urban-rural and regional disparities and occupational and educational characteristics, assess trends over time, and the relationship to macroeconomic and sectoral policy changes. A growing number of poverty assessments also incorporate poor people's views on the determinants of poverty and on needed policy actions. However there is a need to strengthen the policy content of poverty analysis, focussing on the links between macroeconomic, structural and social policies and poverty outcomes.

56. Core poverty analysis needs to be more accessible and better linked to strategy formulation. An ideal vehicle for this is the CAS, which should in any case integrate the results of this analysis, as discussed below.¹⁶ It also has relevance for other core ESW products.

57. The purpose and scope of Public Expenditure Reviews have broadened in recent years from an analysis of public spending allocations to a broader analysis of both spending patterns and the institutions for public expenditure management. In Africa these are now more in the nature of public finance management reviews. These often provide recommendations on how to make government policies and expenditures more effective, transparent and responsive to the needs of the poor. For example, an innovative "tracking" survey in Uganda was used to determine how much of the funding budgeted for schools and clinics actually reached them. It identified significant gaps between amounts budgeted and amounts spent, and resulted in a strengthened citizen monitoring of budget disbursements.

58. In addition to poverty assessments and public expenditure reviews, sector studies often provide key information on sectoral poverty outcomes and policy actions. These can inform the design of good country-level poverty reduction strategies if they look at the impact of policy actions in *other* sectors, rather than take a narrow sectoral view. For example, in Mozambique the health sector strategy identified key determinants of high infant, child and maternal mortality rates, including geographical disparities in service provision, as well as poor quality of health services (lack of drugs and trained personnel), and a series of short and medium term actions were set out. However, the policy analysis appears to have been limited to the health sector—rather than considering the determinants lying outside the health care sector, like water, sanitation, roads, and maternal education.

¹⁵ The recently launched "Policies and Outcomes" project will, among other things, create a database, electronically accessible to task managers providing (a) data on outcomes and determinants (averages and distributions), (b) a synthesis of the evidence on the impact of determinants on outcomes and the factors modifying their effects, and (c) some tools for thinking about integrating this evidence into policy dialogue, development of country strategies and prioritizing among alternative interventions.

¹⁶ As part of this work, there will be systematic documentation of the core facts on poverty, presented either as an integral part of the key analytical and strategy documents, and/or as a self standing note. One proposal under consideration is to prepare 'Poverty Notes' in conjunction with CASs, as a follow-up to the requirement to complete poverty assessments.

59. General sector strategies (across, rather than within, countries) can be of use to country teams if they also make poverty reduction their main objective and take a broad approach—in line with the view adopted in the CDF. For example, international evidence indicates that the most effective actions for improving child mortality outcomes may lie outside the health care sector, just as the most effective actions for improving educational attainment may lie outside the classroom.

60. An ongoing application of the suggested approach has investigated the implications for the environment of having poverty reduction as its *main* objective. It has shown that the environment / poverty links through health of the poor are strong and quantifiable, as are links through natural resource management, though the latter are more difficult to quantify. Environmental factors are among the critical factors causing poor health outcomes among the poor, in particular, dirty water and dirty air have direct health impacts. Two biggest causes of death and illness among poorest 20 percent of the world's population are respiratory infections and diarrhea—for which primary causes are respectively, air quality and water and sanitation. This is being followed up by ranking of existing interventions to help sort which projects are best at reaching the poor and assess poverty focus of design.

61. Finally, the recently introduced Social and Structural Reviews examine a country's medium-term prospects for growth and poverty reduction and the extent to which country policies and the institutional environment enhance or diminish these prospects. When grounded firmly on an understanding of the nature of poverty and the determinants of poverty outcomes, these reviews can provide a systematic evaluation of country weaknesses and vulnerabilities and underpin the formulation of poverty reduction strategies.

4.3 Aligning Country Assistance Strategies with the Framework

62. Country assistance strategies (CASs) provide the Bank with the key vehicle to support the implementation of our clients' poverty reduction frameworks. As a result, CASs should be grounded in the nature of poverty and the key determinants of poverty in a country, establish clear outcome priorities, and support policies, analytical work and investments that have the highest poverty impact. The framework also entails the use of quantifiable indicators to measure progress toward poverty outcome goals.

63. CASs aligned with the framework would need to report briefly on the main characteristics of poverty and its determinants; on trends over time; on linkages between growth and poverty reduction; on the impact of macroeconomic policies and of government programs on the poor; on access to services and programs; and on the main dimensions of vulnerability. (In reporting briefly on these issues, they will build on the findings of in-depth analytical work.) Among the elements could be a self-assessment by country departments of the impact of past Bank activities on poverty and social development in the country and their contribution to poverty reduction, and a 'Poverty Information Sheet', containing key poverty and social development indicators, and a synthesis of results of participatory poverty work and any information on the relationship between social functioning and poverty (social stratification, social capital etc.).

64. This approach to designing CASs is of course not new. A number of countries already have good poverty focused CAS to guide Bank activities with outcome indicators.¹⁷ In some cases, the Bank has been able to build its assistance strategy around a national strategy that has been developed through broad-based consultation and participation. Increasingly, the development of CASs has engaged a wide variety of local actors in civil society – 19 of the 24 CASs completed in the last fiscal year involved participatory processes.

65. While a number of recent CASs do present a clear poverty reduction strategy, more can be done to ensure a clear and tight link between the lending and non-lending activities proposed in the CAS and the poverty reduction strategy and impact. This will entail careful analysis and articulation of the likely impact of projected growth on individual and household measures of well-being. In some countries, lack of data may inhibit a realistic assessment, in which case a strategy for improving poverty data and analysis will need to be spelt out.

66. Adoption of an outcome-based approach implies laying out in the CAS, with as much rigor as possible, causal linkages between sectoral, structural and macro policies on the one hand, and outcomes on the other. A truly multisectoral perspective is needed. Even where empirical linkages are not known, it is important to lay out the hypotheses that underpin the strategy. In the preparation of the forthcoming Burkina CAS, for example, work is underway is to set out the status, trends and disaggregated outcome indicators, and then to select the key indicators for Burkina. The next step will involve cross-sectoral teams to discuss probable causal links, and to explain the reasons behind apparent changes noted in poverty levels and trends. Then the emerging findings can be examined and the Bank's proposed response strategy (areas, instruments, sequencing) defined.

67. A better appreciation of the determinants of poverty and the role of public action will clearly have operational implications for the Bank. What the Bank does, however, will also depend on its comparative advantage in a country: what is recommended is a comprehensive assessment of the determinants of poverty reduction, followed by selective engagement of the Bank depending on the actions of the range of agents.

4.4 Choice of Lending Instruments

68. There are essentially two issues that apply to *all* assistance, whether in the form of debt reduction, multilateral or bilateral flows: first, the total level and time path of inflows; and second, the form of such transfers. With respect to the level and time path of assistance, what is of fundamental importance is that the donor community as a whole provide sustained support in fighting poverty to countries with strong policy performance, so they can grow and significantly improve poverty outcomes. This implies three things:

- (a) A long-term horizon for financial transfers is crucial—matching the long-term horizon for substantial reduction of poverty and the processes of development that underpin

¹⁷ Examples from the last two fiscal years from IBRD and IDA countries include Bolivia, Colombia, Malaysia, Nepal, Panama and Peru.

this. Poverty reduction will require a longer time frame than most single operations from donor programs.

- (b) This does not mean unconditional pre-committing of resources for ten years, but it does imply a long-term framework for consistent, graduated support to countries based on the *level* of policy effort, linked to the systematic monitoring and interpretation of both public action and its consequences (within the schematic structure outlined above). Medium term commitments from external partners clearly facilitate governments in putting together medium term expenditure plans.
- (c) It is the net cash flow that makes a difference to national and budgetary financial positions; and it is important to analyze and aggregate aid and debt reduction effects to reflect this. In particular debt reduction should be treated as only part of the overall financial picture of support for poverty reduction programs. This should be related to expected, not scheduled, debt service payments (since many countries are not paying in full, or their debt service is *de facto* being paid for by other aid inflows).¹⁸ Finally, to the extent that donors are unwilling to use general aid resources to finance recurrent resources, debt reduction may have different financing effects.

69. For a given country, the choice among alternative instruments is essentially a judgement over what is institutionally most effective in supporting the overall program or particular aspects of the program. External support for a coherent poverty reduction program is at one level inherently programmatic i.e. supporting an overall direction of country-wide or sectoral action. However, the Bank has a range of different instruments that could be used in providing this support including: debt reduction (HIPC and other sources); adjustment credits, including budget support; sector investment credits; adaptable program credits; and project-related investment credits. The CAS is the vehicle to set out the package of instruments which the Bank and Government agree provide the appropriate support for the country's situation.¹⁹

70. Any of these instruments—or more probably a mix—could be effective provided it falls within the umbrella of a sound poverty reduction program. Under some conditions the donor-government relationship associated with formally “untied” resources, such as budget support credits, can be the most effective way of supporting a country's program. And in a number of countries where the appropriate safeguards exist on the effective and accountable use of these resources, the logic of this approach could well lead to a larger part of Bank support being provided in the form of budget support. In other cases traditional investment projects or

¹⁸ Generally an informed judgement will have to be made since there is no market or other assessment of expected debt services—in contrast to the information from the market with respect to the private debt, that was important to design of debt reduction support under the Brady plan.

¹⁹ The Bank is currently looking into the effectiveness of different instruments, in terms of development impact, costs to the client and financial implications. Related items include the CAS Retrospective, the Adaptable Program Lending Review, the Annual Review of Portfolio Performance, the Annual Review of Development Effectiveness and the ESW Retrospective. These will be summarized in a final paper on best practice and on the preconditions for different lending instruments (see *Lending Retrospective Issues Paper*; Discussion Draft; August 10, 1999)

adjustable program instruments will be more effective in supporting a process of change and learning in a particular domain of public action.

V. Implications for Collaboration with the IMF and Other Development Partners

71. Evaluations of the impact of international assistance have revealed a number of important lessons. First, external financing is more effective when a country has strong domestic policies and institutions such as good governance and participatory processes. Second, donors now emphasize the importance of having government in the driver's seat for increasing the impact of international assistance in general—reflecting the experience that policy conditionality works best when there is robust government ownership of the reform program.

72. The application of the framework described above to the formulation of poverty reduction strategies would have implications for all donors. The international development community has already agreed to a set of goals for 2015. The formulation of country-specific strategies and targets would provide a logical basis for the design of external assistance by individual donors—similar to the implications for the design of the Bank's CAS described above. In countries where a CDF is being developed, this may provide a useful vehicle for the government to engage all donors.

73. Of particular importance is the coordination between the Bank and the Fund.²⁰ Successful application of the framework would require closer Bank/Fund cooperation, including in-country cooperation as well as at headquarters. To ensure that this supports effectively enhanced government efforts to reduce poverty, we are proposing to create a new vehicle—a Poverty Reduction Strategy Paper (PRSP). This strategy paper would be formulated with government and with participatory processes, and would be outcome-oriented, along the lines of the framework described in this paper. Moving to the PRSP should *begin* immediately, but would take time and should be phased in pragmatically, depending partly on the pace at which countries can build the relevant capacity. It is envisaged that PRSPs will gradually be done for all ESAF/IDA eligible countries and that where a PRSP exists there will be no need for a PFP to be produced. The use of PRSPs would be pioneered in the ESAF/IDA pilot cases for enhanced Bank-Fund collaboration and in HIPC countries where it would also provide a basis for ensuring a robust link between debt relief and poverty reduction.²¹

VI. Next Steps and Implementation

74. The framework is not entirely new – as noted already, a number of countries, including Uganda, Mozambique, Bolivia and the South Asian region more generally, have moved in this direction. It is also firmly nested within the CDF, which provides the context for articulating a systematic approach to poverty reduction at the country level.

²⁰ Recent efforts to increase the social content of IMF-supported programs are described in: *Review of the IMF's Approach to Social Issues and Policies* (EBS/99)

²¹ See IMF/IDA (1999) *HIPC Initiative—Strengthening the Link between Debt Relief and Poverty Reduction*.

75. But no country has *fully* and *systematically* applied a poverty outcomes-based framework. The ideal vehicle to take this forward at the country level is the CAS. Outcomes-based CAS's will require more systematic diagnostics and information base for poverty; setting country-level priorities, grounded in poverty outcomes; *and* country level outcomes-based sectoral strategies. Regular country reviews to monitor and interpret progress on poverty goals are an integral part of the framework.

76. There are large risks, and questions to be resolved as we move forward in a phased manner. Obtaining 'buy-in' from countries and country teams is integral, building on and extending the consultations with country teams that informed the articulation of this framework. The *process* of moving forward, and in particular the need for participation and transparency, is very important.

77. Rolling out the framework clearly creates large challenges for Bank staff and our clients. In particular, enabling broad civil society participation and country ownership and providing assistance to countries to enhance institutional capacity for data collection and design and implementation of poverty reduction strategies, could slow down the pace of implementation. Moreover, internal processes and incentives for Bank staff need to be coherent with a long-term outcomes based approach.

78. The framework will be phased in at the country level over the next several months. The immediate pressure will be on the low income countries coming to a HIPC decision point, who will need to have begun to put PRSPs into place. It is expected that 25-30 pilot countries will have the poverty reduction strategies in place a year from now, nested within the CDF for implementation. The substantial pressure to move ahead on a number of fronts obviously carries large risks, but the opportunities for enhancing the poverty impact of the Bank's work are enormous.