

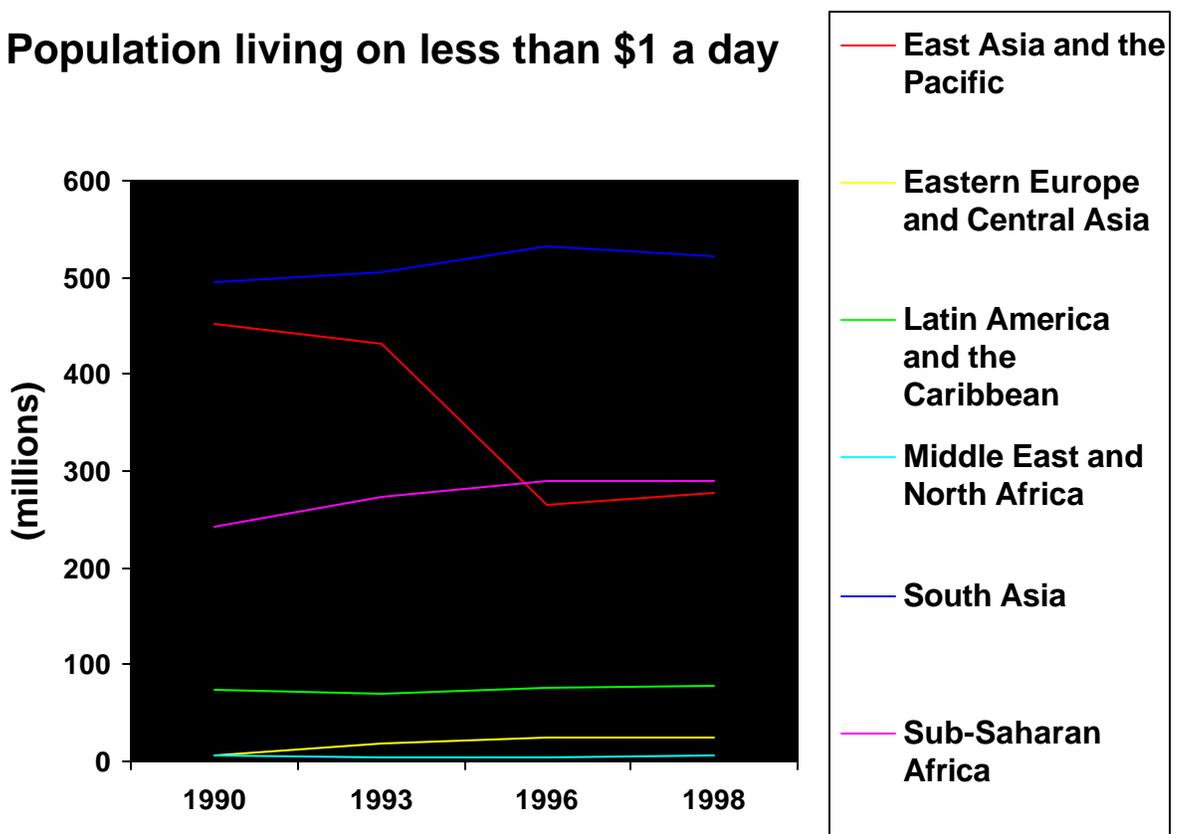
## Partners in Transforming Development: New Approaches to Developing Country-Owned Poverty Reduction Strategies

### *An Emerging Global Consensus*

A turn-of-the-century review of the fight against poverty reveals a worrisome picture. While there has been remarkable progress, particularly in China and other parts of East Asia, abject poverty persists unabated in many developing countries. Many countries—generally those with a sustained policy record and without major internal conflict—have made significant headway on growth and poverty reduction. However, the current rate of progress is too slow to improve the lives of the poor significantly within the next 15 years.

At the same time, the gap between the rich and the poor is large and growing—not just in incomes but in education and health outcomes as well. Indeed, the latest assessment undertaken by the World Bank indicates that unless current trends are reversed, the broadly supported *International Development Goals*—including reducing by half the proportion of people living in extreme poverty (less than one dollar a day) by 2015—will not be met.

### Population living on less than \$1 a day



The scale of the challenge to reduce poverty is daunting. In the next 25 years, the world's population is projected to grow by about 2 billion people, most of whom will be born in developing and emerging economies. Without a concerted effort from the development community to scale up its support of the countries' own efforts, many of these people will be doomed to a life of poverty.

Concern that there is a stalemate in the fight against poverty has prompted in recent years an intense reexamination of development and debt strategies. National governments, the World Bank, the International Monetary Fund (IMF), United Nations agencies, regional development banks, nongovernmental organizations, and church groups have all been actively involved in this exercise.

One result was an agreement, at the September 1999 Annual Meetings of the World Bank Group and IMF, on a strengthening of the Heavily Indebted Poor Countries (HIPC) Initiative to provide broader, deeper, and faster debt relief.

But the broader outcome has been a growing convergence of views on a number of fundamental principles, namely:

- Development is process of societal transformation that takes place over time.
- A comprehensive approach to development and a multidimensional view of poverty is essential.
- Faster growth is essential for sustained poverty reduction, and greater participation of the poor in growth widens growth potential.
- Country ownership of the goals, strategy, and direction of development and poverty reduction—ownership that is shared by representative segments of its society—is critical for sustainable development.
- The development community as a whole must work together closely, forging strategic partnerships, rationalizing programs, and combining the relative strengths of its members.
- There should be a clear focus on measurable development outcomes.

<i>Building Consensus on Poverty Reduction</i>		
Copenhagen Declarations	1995	International community agrees to address key social development issues
Development Assistance Committee publishes Strategy 21	1996	Strategy calls for a global effort to reach International Development Goals
World Bank/IMF Annual Meetings	1996	Approves the HIPC initiative for comprehensive debt relief
Cologne Summit	1999	G-8 declares support for deeper debt relief within a framework of poverty reduction
World Bank/IMF Annual Meetings	1999	Agreement to link debt relief to the establishment of a poverty reduction strategy for all countries receiving World Bank/IMF concessional assistance

At the September 1999 Annual Meetings of the World Bank Group and IMF, Ministers endorsed the proposal that country-owned poverty reduction strategies should provide the basis of all World Bank and IMF concessional lending, and should guide the use of resources freed by debt relief under the enhanced HIPC Initiative. This strategy will be reflected in the Poverty Reduction Strategy Paper (PRSP)\* prepared by country authorities with broad participation of civil society.

The PRSP will, in effect, translate the Bank's Comprehensive Development Framework (CDF) principles into practical plans for action. The PRSP's aim is clear: to strengthen country ownership of poverty reduction strategies; to broaden the representation of civil society—particularly the poor themselves—in the design of such strategies; to improve coordination among development partners; and to focus the analytical, advisory, and financial resources of the international community on achieving results in reducing poverty.

This brochure is intended to answer some basic questions about the PRSP approach. It is important to point out that the principles underlying this approach are not new, but build fundamentally on research, experience, and most importantly, innovative and successful programs pursued by countries themselves. Indeed, a number of low-income countries, including early recipients of HIPC assistance such as Uganda and Bolivia, have already made substantial progress in developing their own participatory poverty reduction strategies.

We hope that the following questions and answers illustrate these principles and describe a framework which is intended to evolve over time. By describing the broad principles which underlie the PRSP approach at this early stage, we further sharpen our already vigorous and productive dialogue on development issues, including poverty reduction and debt relief.

### **Why should countries formulate poverty reduction strategies?**

- To ensure that the needs of the poor come first in the public policy debate. Despite impressive strides in the last three decades, abject poverty and inequality still plague many developing countries.
- Experience has shown that lasting development and poverty reduction require a true transformation of society, driven by the countries themselves, in consultation with civil society and the private sector. Most importantly, the transformation must enjoy broad support from the true experts on poverty: the poor themselves.
- Armed with poverty reduction strategies, countries become the masters of their own development, with a clearly articulated vision for their future and a systematic plan to achieve their goals.
- Countries are in charge, but they are not alone in the fight against poverty. The development community—including bilateral donors, international organizations, and

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\* <http://www.worldbank.org/poverty/strategies/>

multilateral financial institutions—stands ready to lend support, based on country-owned PRSPs.

## **How can poverty reduction strategies best serve the poor?**

- By focusing on results, not platitudes.
- A results-oriented strategy means that countries should understand the nature of poverty and determine which public actions will have the most impact on the poor.
- Since poverty is complex and multidimensional, the strategies should be comprehensive, and should include plans for rapid economic growth, sound macroeconomic policies, structural reforms, and social improvement.
- Every country's unique economic, social, cultural, and historical factors will shape its poverty reduction goals, but the International Development Goals can serve as benchmarks.
- The outcome will be demonstrable progress for the poor in sharing in the benefits of growth, increasing their well-being, and reducing their vulnerability to risks. Poverty reduction strategies will set out actions to lead to these outcomes.
- None of this can happen overnight. A transformation of this magnitude will entail changing institutions so that they are accountable to all, including the poor, and building the country's capacity to respond to the needs of its citizens. Results will come only if there is a long-term commitment by governments and their partners, at home and internationally.

## **What is the link between poverty reduction strategies and the Comprehensive Development Framework ?**

- The CDF describes an approach to policymaking based on greater balance between the economic, human, and structural elements of development, and on new partnerships that support countries in achieving this balance.
- Experience, research, and most importantly, the poor themselves emphasize that issues such as inclusion, justice, corruption, gender, and the environment—issues beyond the traditional scope of economic management—are fundamental to lasting development and sustainable poverty reduction.
- Poverty reduction strategies transform the principles underlying the CDF into a plan of action for poor countries.
- The fundamental principles underlying poverty reduction strategies build on the broad vision articulated in the CDF. Both envision development that is :
  - Country-driven
  - Results-oriented
  - Comprehensive
  - Coordinated with partners
  - Long-term

## What will a poverty reduction strategy look like?

The PRSP approach is intended to strengthen basic principles of country ownership, comprehensive development, and broad public participation; but there is *not* a blueprint.

There are, however, a number of core elements that are likely to be common to all strategies.

- ***Diagnosing obstacles to poverty reduction and growth.*** A poverty reduction strategy could begin by using existing data to describe who the poor are and where they live, and by identifying areas where data needs to be strengthened. Building on this description, the poverty reduction strategy could analyze the macroeconomic, social, structural, and institutional impediments to faster growth and poverty reduction.
- ***Policies and objectives.*** In light of a deeper understanding of poverty and its causes, the PRSP can then identify medium and long-term targets for the country's poverty reduction strategy, and set out the macroeconomic, structural, and social policies that together comprise a comprehensive strategy for achieving these outcomes.
  - Objectives can be divided into two measurements. First, long-term goals can be given for key poverty reduction targets. These might include broad measures of economic progress and of material human deprivation. The International Development Goals can serve as benchmarks for these country-specific targets.
  - Second, the PRSP can also aim to establish more monitorable, near-term indicators, such as annual growth rates and primary school enrollment.
  - The strategy will then lay out the public policy actions designed to achieve the near- and long-term objectives, in the context of the country's overall budget.
- ***Monitoring.*** In order to understand better the link between policies and outcomes, a poverty reduction strategy should include a framework for monitoring progress and mechanisms to share this information with a country's development partners.
- ***External assistance.*** A strategy can also improve the effectiveness and efficiency of donor assistance by identifying the amount of external support—both financial and technical—required to implement the strategy. It could also assess the potential poverty impact of both higher and lower assistance commitments, including actual savings from debt relief.
- ***Participatory process.*** A strategy may describe the format, frequency, and location of consultations; a summary of the main issues raised and the views of participants; an account of the impact of consultations on design of the strategy; and a discussion of the role of civil society in future monitoring and implementation.

## Will poverty reduction strategies affect the timing of debt relief under the Heavily Indebted Poor Countries Initiative?

- In principle, countries seeking assistance under the HIPC Initiative should have a poverty reduction strategy in place at the decision point (the point at which debt relief is committed by participating creditors), and should have made demonstrable progress in its implementation by the completion point (the point at which full debt relief is provided irrevocably).

- However, to avoid delays for countries that have been working toward their decision point, but have not had time to prepare a final strategy, there will be a transition period that will allow a country to reach its decision point if it can demonstrate a commitment to poverty reduction.
- A country can show this commitment through an interim poverty reduction strategy that sets out the broad outlines of a comprehensive poverty reduction plan, and the timetable and participatory process envisaged for its production.
- Both the World Bank and IMF are working with HIPC countries and other participating creditors to have as many eligible countries as possible reach their decision point by the end of 2000, perhaps as many as 25.

### **What is the role of donors and multilateral organizations?**

- To be successful, a country-owned poverty reduction strategy needs to be supported by a country's development partners and provide a common framework for their assistance programs in the country.
- Ideally, all donors and multilateral development institutions will contribute to the poverty reduction strategy's design, identify their specific participation, and make up-front commitments in support of that participation. The World Bank and IMF will encourage country authorities to bring all development partners fully and early into the process.
- The poverty reduction strategy will allow donors to plan their aid commitments and to lend their expertise to recipient governments and civil society, based on the country's own strategy. It should thus reduce overlapping conditionalities, duplication, and diversion of scarce national administrative resources.
- Finally, greater and more coordinated participation by the entire donor community will help track progress toward the International Development Goals.

### **What roles do the World Bank and IMF play in developing poverty reduction strategies?**

- As with all participating development partners, the World Bank and IMF stand ready to provide support to governments in the development of their strategies without in any way predetermining the outcome or undermining country ownership.
- Because poverty reduction strategies will form the context for World Bank and IMF concessional lending to low-income countries, they will be critical for each institution's relationship with its members and with each other.
- World Bank and IMF management realize that this will require an important shift in the organizational culture and attitudes in both these organizations and in partner institutions. This shift has already begun to take place. By coordinating early and maintaining open lines of communication with country authorities—particularly by providing available diagnostic information—the World Bank and IMF can ensure that they assist countries in a timely and comprehensive manner.

***Developing Common Assessments***

- World Bank and IMF staff will work to give each government their views on the core impediments to poverty reduction and growth within the country, and the policy options for overcoming these obstacles. These common perspectives are not intended to determine the shape of the final strategy, or to detract from country ownership of the strategy, but to provide input to the policy debate in a transparent form.
- As part of this joint support, it is crucial that each institution focus on its traditional areas of expertise. Accordingly, World Bank staff will take the lead in advising on the design of poverty reduction strategies, including the necessary diagnostic work such as poverty assessments, the design of sectoral strategies, institutional reform, and social safety nets.
- The IMF will advise governments in areas of its traditional mandate, including promoting prudent macroeconomic, exchange rate, and tax policies.
- In areas where the World Bank and the IMF both have expertise—such as fiscal management, budget execution, budget transparency, and tax and customs administration—we will coordinate closely.
- Closer coordination between the World Bank and the IMF will not only help provide more useful assistance in the short term, but also clarify the relationship between the macroeconomic framework, growth, and poverty reduction over the medium and long term.
- Before a poverty reduction strategy is completed, World Bank and IMF staff will meet with country authorities to discuss the emerging strategy. These views will also be shared with civil society and other development partners.
- The country will send the final strategy to the Executive Boards of both institutions. The Boards will also receive a World Bank-IMF staff assessment, with an analysis of the strategy and a recommendation on whether the strategy should be broadly endorsed as a basis for World Bank and IMF concessional lending. The staff assessment will include a description of the participatory process, but not a judgement as to its adequacy.
- The World Bank and IMF intend to place the final strategy paper, along with the joint World Bank-IMF assessment and a press release summarizing the Boards' discussions, on their web sites.

**Which countries will benefit from poverty reduction strategies?**

- The international community 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) and IMF (through the Poverty Reduction and Growth Facility) should develop country-owned poverty reduction strategies.
- Countries that qualify for debt relief under the HIPC Initiative and those which are coming up for approval of PRGF arrangements are likely to be among the first to develop poverty reduction strategies.

## **What are the next steps?**

- Although the World Bank and IMF are strongly committed to using country-owned poverty reduction strategies as the basis for their concessional lending, the process for implementing this change in the way the institutions have traditionally done business is likely to evolve significantly in the months and years ahead.
- This new framework for poverty reduction warrants regular and careful reviews. In the near term, we expect to conduct interim progress reports for the April and September 2000 meetings of the World Bank and IMF, and a full review in the fall of 2001.
- Broad public involvement will be a critical element of the review process. Building on the fruitful public dialogue on debt relief, we will organize consultations with member countries, international agencies, and civil society. We will also use our web sites ([www.worldbank.org/poverty/strategies](http://www.worldbank.org/poverty/strategies); [www.imf.org](http://www.imf.org)) to elicit public comments, which will be summarized and presented to Executive Directors at the World Bank/IMF Annual Meetings in September 2000.