

AN ENHANCED FRAMEWORK FOR POVERTY REDUCTION: A SYNOPSIS FOR BANK STAFF

This framework, which was strongly endorsed by the Board on September 9, is designed to be used by national authorities to strengthen the impact of public action on poverty. It also has key implications for the Bank and the Fund. The essence of the framework is to place the emphasis on producing results for poverty reduction. To make this possible, a comprehensive understanding of poverty determinants in individual countries is needed, from which would flow a set of priorities for public action according to the expected impact on poverty outcomes

The key elements of the framework are:

- **A comprehensive understanding of poverty and its determinants.** Understanding who and where the poor are and the identification of obstacles they face in 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– may have equal importance in an effective action program to tackle poverty in all its dimensions.
- **Outcome indicators are set and monitored using participatory processes.** Identification of poverty outcome targets and related intermediate or interim indicators is key to program formulation and a crucial mechanism for regular assessment of program design and implementation. The international development goals (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 there is accountability through regular monitoring of outcome indicators.

There are a number of instruments available to take forward this approach. Key opportunities include the CAS, Public Expenditure Reviews and Poverty Assessments, as well as the enhanced HIPC Initiative. For example, the CAS would incorporate the outcome (and intermediate) indicators of the poverty action strategy as its objectives and, as practicable, ensure that annual information was available on such indicators. It would also embody the overall strategy, establish priorities for Bank support, as well as the contributions of other partners. Planning for the CAS (and where appropriate the overarching CDF) would, through a participatory process: (i) select poverty-related targets, outcomes and intermediate indicators; (ii) articulate or refine the poverty reduction strategy; and (iii) establish a learning process for regular review of the indicators and implementation of the poverty reduction strategy.

The Board has endorsed the suggestion that government would produce, with assistance of the Bank and Fund staff, a Poverty Reduction Strategy (PRSP) (see Box 1). The PRSP would outline the underlying diagnosis of the poverty situation and key elements of the strategy, as well as describe the participatory process used to define poverty reduction priorities and targets and proposed monitoring instruments. It would also show how Bank and Fund lending supports the strategy; and once approved by the Executive Boards of both institutions, it would provide the framework for all Bank and Fund operational support for the country, and a vehicle for much closer collaboration between the Bank and Fund. The strategy document would be published to ensure transparency. The PRSP would, over time replace the P.F.P. The Executive Directors

endorsed the proposal that the PRSP will not only be used in HIPC countries, but early on also in the IDA/ESAF pilot countries as a precursor to coverage of all low-income countries.

Under the Enhanced HIPC Initiative, a viable and comprehensive poverty reduction strategy should be in principle be in place prior to the decision point. As the elaboration of a PRSP will take time, this may not always be possible in a transition period. At a minimum for the early cases, a process to formulate a comprehensive poverty reduction strategy should have been initiated, while demonstrable progress in implementing the strategy set out in the PRSP be required by the completion point. In the case of countries that have already reached decision points under the initial framework of the Initiative, recommendation on the timing of additional relief would take into account, among other things, progress that has been in designing and implementing poverty reduction strategies.

HIPC Initiative documents would analyze key determinants of poverty in the country and specify the key subset of indicators around which review of progress would be assessed and the participatory process to be followed to monitor progress. These indicators would include intermediate benchmarks linked to poverty reduction, and the basis for staffs' recommendation of conditions to meet on floating completion point.. In the absence of a CAS or CAS Progress Report in the year prior to the decision point, the President's Memorandum of the HIPC Initiative decision point document would specify Bank lending triggers based on progress in the implementation of the poverty action strategy.

Box 1: The Proposed Poverty Reduction Strategy Paper (PRSP)

Essential characteristics

- It must ensure consistency between a country's macroeconomic, structural and social policies and the goals of poverty reduction.
- It should serve as the overall basis for designing Bank and Fund lending operations.
- It must be produced in a way that includes transparency and broad-based participation in the choice of goals, the formulation of policies and the monitoring of implementation -- with ultimate ownership by the government.

The first two of the key characteristics noted above imply:

- Medium- and long-term goals for poverty reduction, with a range of relevant outcome-related indicators for monitoring progress (including but not be limited to the social sectors).
- A macroeconomic framework for rapid sustainable growth consistent with poverty reduction goals (over a minimum three-year horizon).
- The structural reforms and priorities and sectoral strategies (a three-year agenda) and associated funding needs (domestic and external) necessary to reach poverty objectives.
- Anti-poverty and other social policies, linked to an analysis of the social impact of macro and structural policies, and associated funding needs (domestic and external).
- Overall external financing needs (including technical assistance needs and expected providers) for each year of the program.

Process. Governments would be expected to take the lead both in drawing up a PRSP and in conducting consultations with civil society and other stakeholders. The consultative process could, however, be facilitated by the Bank, with the involvement of the Fund on macroeconomic policies and in relevant structural areas, and others where appropriate. Governments may also need to seek extensive technical assistance—including from the Bank and Fund—on the elaboration of policies within the PRSP.